EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

FRANCE
Breaking with tradition
Page 18

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Wednesday January 17 1990

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World News

Plan for UN to supervise elections in Cambodia

The five permanent members of the UN Security Council agreed on a set of guideline principles for a Cambodian peace settlement based on a role for the UN during a transitional period.

The five powers – the US, Soviet Union, China, France and the UK – decided that a UN operation should supervise a ceasefire and monitor free elections. Page 4

Soviet SE sought

Deputy Soviet Prime Minister Leonid Abalkin said Moscow should abolish state ownership of industry and create stock and commodity markets as part of a drive to rescue the country's Soviet economy.

Sri Lanka toll

Western diplomats say as many as 30,000 people may have died in Sri Lankan violence last year. Page 4

Fighter setback

West German Free Democrats, junior partner in the country's coalition, abandoned support for the four-nation European Fighter Aircraft. Page 2

HK refugee protest

Vietnamese children chanting "give us freedom, we would rather die here than go back to Communism," failed to move Douglas Hurd, British Foreign Secretary, on a visit to a Hong Kong detention centre for boat people. Page 4

Jamaica loses aid

Jamaica is to lose $25m in aid promised by the US to fight narcotics production and trafficking on the island. Page 6

Berlin talks

Hans Modrow, East Germany's Prime Minister, crossed to West Berlin for talks on drawing together the two halves of Berlin. Page 2

Trial for Ceausescu

Youngest son of Nicolae Ceausescu will go on trial this week along with other close associates of the executed Romanian dictator.

EC language census

The European Commission plans a census to find out how many languages are spoken among the 320m EC citizens.

Mudslide kills 16

Sixteen people died when the headquarters of the Soviet Union's Caspian Fleet in Baku, the Azerbaijani capital, was hit by a mudslide.

China purge threat

China's official People's Daily hinted at new purges and said the Communist Party must be led by people loyal to Marxism. Page 4

Gangster arrested

Police in Rio de Janeiro arrested Isaias da Costa Rodrigues, 27, who they claim is the last of the city's big-time cocaine gangsters. Page 6

Army in Bucharest

Bucharest is to be placed under the direct control of an army general, a move which will fuel suspicions that the military will assume even greater prominence within the Front for National Salvation and in running the country. Page 2

Ivory exemption

UK is to seek an exemption for Hong Kong from the international convention banning trade in ivory. Page 8

S Korea accused

Amnesty International, human rights group, accused South Korea of torturing political prisoners and said it knew of political prisoners held for up to 40 years.

Citizen Rostropovich

Cellist and conductor Mstislav Rostropovich and his wife, Galina Vishnevskaya, have had their Soviet citizenship restored after 12 years.

Business Summary

GE seeks to share cost of developing jet engine

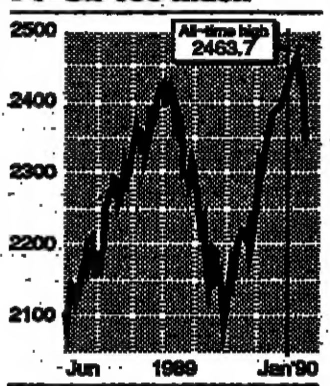
GENERAL ELECTRIC of the US is seeking to spread the $1.2bn-$2bn cost of developing the world's largest commercial jet engine by negotiating risk-sharing partnerships with European and Japanese aircraft engine manufacturers.

• Snecma, the French state-owned aircraft engine manufacturer, has already agreed to take a 25 per cent share of the programme. Page 20

SINGAPORE AIRLINES (SIA) placed a $8.6bn order for a total of 50 new Boeing 747/400 jumbo jets and McDonnell-Douglas MD11 long-distance jet liners in one of the largest single new aircraft orders on record. Page 3

LONDON stock exchange performed fairly well, despite ominous developments inside the UK securities industry and elsewhere. It rallied from an early loss with the FT-SE Index ending 17.1 down at 2,349.1. Page 35

FT-SE 100 Index



EUROPEAN Commission is likely announce an initiative to harmonise accounting standards in the European Community. Page 20

WEST German Bundesbank president, Karl Otto Pöhl, said a future European central bank should be independent of politicians and in sole control of European Community monetary policy. Page 20, Analysis, Page 2

KINGFISHER: the UK stores group's £568m ($944m) takeover bid for Dixons, the electrical retailer, was referred to the UK Monopolies and Mergers Commission. Page 21

OCCIDENTAL Petroleum announced awards of £90m ($149m) contracts for a North Sea oilfield development far in advance of seeking required UK Government approval. Page 20

EC STEEL producers strongly oppose a Commission plan to allow five East European countries, plus Brazil, to ship 18 per cent more steel to the EC this year. Page 3

FUJI Heavy Industries, Japanese vehicle and equipment maker, plans to take full control of Subaru of America, the US distributor of its cars. Page 26

SMITH New Court, UK securities firm launched an unusual legal action against a subsidiary of Citicorp over losses it faces on a holding of shares in Ferranti International of up to £13.4m ($22.2m). Page 8

TVS Entertainment, announced sharply reduced profits because of losses at its US acquisition MTM, the independent production company. Page 21

ELDERS IXL, Australian brewing-based multinational which owns the Courage beer group in the UK, is poised to re-acquire full control of the 5,000 Courage pubs. Page 21

CHINA moved yesterday to block Taiwan's bid for membership of the General Agreement on Tariffs and Trade (Gatt). Page 3

A BRAZILIAN federal court quashed a ban on the import of methanol for use as motor fuel. Page 34

Racial clashes claim 56 as Moscow sends troops

By Quentin Peel in Moscow

VIOLENT racial clashes continued in the Soviet republics of Azerbaijan and Armenia yesterday as Moscow sent more than 11,000 troops to the region in an attempt to reimpose control with sweeping emergency powers.

The official death toll was yesterday put at 56 as fighting between vigilante groups, armed with automatic weapons and even armoured cars, was reported from hills along the border of the disputed enclave of Nagorno-Karabakh, where most Soviet troops have been sent to restore order.

In the US, the White House took a sympathetic view of the use of troops. "We understand the need to restore order where order has broken down. I think that clearly is the case there," said Mr Marlin Fitzwater, White House spokesman.

While Soviet spokesmen insisted outright civil war has still not broken out, the Soviet press disagrees. The newspaper Komsomolskaya Pravda said yesterday: "What is happening in Karabakh and in northern Azerbaijan can only be called civil war."

Mr Mikhail Gorbachev and the Soviet authorities in Moscow were bitterly criticised yesterday for failing to extend the state of emergency and virtual martial law to Baku, the Azerbaijan capital, where most of the deaths have occurred in "pogroms" launched against Armenian residents.

Azerbaijanis were last night reported to be blockading the port and airport in the city to prevent further evacuation of Armenian refugees.

The state of emergency declared by the Presidium of the Supreme Soviet in Moscow – the country's highest constitutional authority – now applies in Nagorno-Karabakh, in the mountain areas of Shaumyan and Khanlar south of the city of Gandzha, in the Armenian region of Gori, and along the Soviet-Iranian border in Nakhichevan, scene of violent demonstrations.

It has been left to the government in Azerbaijan to decide whether to impose a curfew in Baku, much to the disgust of Armenians in Yerevan, the republic's capital. No such decision had been reported by last night, despite mass rallies in the city and calls to arm the population.

Four tanks were recovered from Azerbaijani nationalists outside Gandzha, two days after they had been seized at the local railway station, Tass news agency reported.

At least 300 lorries carrying militants were in Azerbaijani areas bordering Nagorno-Karabakh, it said.

In the Nakhichevan region, which is an Azerbaijani enclave on the Iranian and Turkish borders, surrounded by Armenia, a village was attacked by 3,000 Armenians, according to Izvestia and Radio Moscow.

Large amounts of explosives had also been discovered in two railway carriages on their way from the Urals to Armenia.

How they were expected to arrive is unclear, as Armenia has been subject to a rail blockade by Azerbaijani workers for months, causing an acute fuel shortage.

Nationalist protesters appear to be in control of many parts of Baku, with a blockade of both the port and airport reported by Radio Moscow's Interfax news service. Interior Ministry troops attempting to maintain order are doing so without arms.

The nationalists, co-ordinated by the Azerbaijan Popular Front, have also managed to disrupt the military reinforcements ordered to the region by Moscow, Soviet newspapers reported.

Soviet TV news said more than 5,000 Soviet Army soldiers and 6,000 Interior Ministry troops had been sent to the area. According to the Armenian government office in Moscow, out of 220,000 Armenians living in Baku, only a few thousand remain.

Other E Europe news, Page 2

Armenians demonstrating outside government buildings in Moscow yesterday bear a banner warning: 'The corpses of Armenians in Baku rest on the conscience of the leaders of our country'

Citicorp, County NatWest shed jobs in London

By David Lascelles and Richard Waters in London

THE CITY of London faced a fresh wave of job losses yesterday as two banks cut their securities operations.

Citicorp, the largest US bank, announced it was shutting down the core equity business of Citicorp Scrimgeour Vickers, its five-year-old stockbroking subsidiary. About 215 jobs will disappear, although Citicorp said it hoped that at least a third of those affected would be found jobs elsewhere in the group.

Yesterday also saw 79 redundancies in the UK equities arm of County NatWest, the investment bank owned by National Westminster, reducing staff in this area to 580. Most of the job losses are in back-office settlement and technology areas, although County has also shed 23 market makers, about a quarter of the total.

In spite of this, Mr Tim Ferguson, chief executive of the securities operation, said County would not be reducing any of its market coverage and that there would not be any further wholesale redundancies in the forseeable future.

The job cuts coincide with a management shake-up which has brought a new management team into place in the operation, largely replacing that from Wood Mackenzie which took control after County acquired WoodMac two years ago. Citicorp blamed its action on the persistence of low trading volume in the UK equities market and the fact that trading capacity was still excessive, in spite of the withdrawal of other dealers.

Mr John McFarlane, CSV's managing director, said cost-cutting measures and strategic changes which had been adopted last year had helped reduce the firm's losses. But a strategic review had shown that there was no prospect of CSV earning an adequate profit in the medium term.

"The outlook is not good," he said. CSV had about 2½ per cent of the market and 100 clients. In New York, Citicorp disclosed in its 1989 results last night that it was making a $68m provision to cover its UK equity losses.

Citicorp will continue to deal in about 100 small UK company stocks. It will also try to develop its cross-border business in European equities, using existing operations in Germany, Switzerland and a number of other countries. The emphasis, Mr McFarlane said, would be on the more sophisticated services where Citicorp could add more value.

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Citicorp makes debt provision, Page 21; Lex, Page 20

Smith New Court, the London-based securities firm, yesterday started legal action against Scrimgeour Vickers (Asset Management), the Citicorp subsidiary, alleging misrepresentation over Smith's July purchase of a stake of 28m Ferranti International shares. The purchase was made about two months before Ferranti announced that it had uncovered evidence of significant fraud in the group, an announcement which resulted in its share price falling sharply. Page 8

Renault to build vans in Czechoslovakia

By Kevin Done, Motor Industry Correspondent, in London

RENAULT, the French state-owned automotive group, is negotiating a joint venture with Czechoslovakia for the local assembly of light commercial vehicles.

Mr Paul Percie du Sert, Renault commercial director, said the group was planning to produce its Trafic medium-sized panel van in Czechoslovakia starting in 1992.

The Renault announcement is the latest in a series of moves by Western motor manufacturers seeking to break into East European markets following the sweeping economic and political reforms of recent months.

Earlier this week, General Motors of the US said it was planning to invest more than $100m to form a joint venture in Hungary to build engines and assemble cars.

Fiat of Italy has signed a preliminary agreement with the Soviet Union for small car production, while Suzuki of Japan is to produce cars in Hungary and Daihatsu of Japan is hoping to produce small cars in Poland.

Volkswagen, which began shipping engines built under licence in East Germany to the Federal Republic late last year, has also formed a joint venture recently which is expected to lead to the production of small cars or light commercial vehicles in East Germany.

Renault has not yet signed a final agreement with Czechoslovakia, but the company said yesterday it was negotiating a joint venture with BAZ – Bratislava Automobile Zavodi – for the production of its Trafic van.

The plant would have an initial output of 15,000 vans a year, eventually rising to 30,000, said Mr du Sert.

A draft agreement has already been signed. It is expected that output will go to the domestic Czechoslovak market as well as to other East European countries which currently lack modern van production facilities.

Renault has previously been involved in the car industry in Romania, where its Renault 12 has been produced under licence since 1969 under the Dacia name.

● Bull International, the French state-owned computer group, is to set up a joint company with Videoton, the Hungarian electronics group. Mr Didier Ruffat, managing director, said a deal would be signed between the two countries on Friday. He said the company would be majority-owned by Videoton.

GrandMet to buy 49% stake in Rémy Martin

By Philip Rawstorne in London and George Graham in Paris

GRAND METROPOLITAN, the UK drinks and foods group, is to buy a minority stake in Rémy Martin, the last major cognac house still in family ownership.

Talks are in progress with the Max Cointreau family for the acquisition of its 49 per cent stake in Rémy Martin and its 19 per cent shareholding in Cointreau, producer of the orange liqueur.

Rémy Martin and Cointreau are shortly to bring their businesses together, resolving a long-running quarrel between the related Cointreau and Dubreuil families which has gone 12 times to the French supreme court.

If the GrandMet deal goes through, the company would end up with a share of around 20 per cent of the new, merged company at a net cost of about £100m ($166m).

GrandMet's International Distillers and Vintners has a long-standing partnership with Cointreau. But it was emphasised last night that IDV would

Continued on Page 20

Lex, Page 20

US drops drug cash laundering charge as BCCI agrees to pleas

By Richard Donkin in Tampa, Florida

THE US Government agreed yesterday to drop drug money laundering charges against the Luxembourg-registered Bank of Credit and Commerce International in return for guilty pleas by two of its subsidiaries and the bank's submission to strict compliance procedures. Drug trafficking conspiracy charges against the bank were also dropped.

The agreement also allows the US to confiscate $14.8m of the bank's assets, representing laundered money said by the prosecution to have passed through the bank's accounts.

A federal court in Tampa, Florida, accepted pleas of guilty to charges of laundering the proceeds of cocaine sales and tax and currency reporting infringements entered by BCCI SA, of Luxembourg, and BCCI (Overseas), of Grand Cayman.

Sentencing has been delayed until a later date, but the plea agreement accepted by the court allows for suspension of a fine of up to $500,000 subject to a five-year probation order over both organisations.

Federal investigators preparing the case against General Manuel Noriega, the deposed Panamanian dictator, are particularly interested in securing the bank's full co-operation in investigations of Gen Noriega's family accounts and a former account in the name of the Panamanian Defence Forces.

The agreement will allow BCCI, the world's fifth-largest private bank, to continue operations in the US, where it has agency status. In future, however, it will be subject to strict compliance procedures agreed with the Federal Reserve.

Mr Anjad Awan, one of the bank's officers charged, told a Senate Foreign Relations hearing two years ago that he had been a personal banker to Gen Noriega.

The case is continuing against six BCCI employees: Mr Awan, who is a marketing officer; Mr Akbar Bilgrami, another Miami-based marketing officer; Mr Syed Afted Hussain, an officer of the Panama branch; Mr Iqbal Ashraf, a Los Angeles officer; Mr Ian Howard, manager of the Paris branch; and Mr Sibte Hassan, a Paris-based officer.

Mr Michael Rubenstein, Assistant US Attorney, said US Customs agents, working under cover, entered into agreements to help a known drug money launderer, Mr Gonzalo Mora jnr, move money from his drug sales out of the country.

Increasingly sophisticated methods were used for laundering in a large-scale Customs "sting" operation. The use of BCCI by Customs agents started in autumn 1987 after one agent had been persuaded by Mr Mora earlier that year to take out a corporate account at the Panama branch of BCCI to deposit money collected from cocaine sales.

Mr Rubenstein said that in meetings with bank officers, Customs agents established that the officers had knowledge of the source of the funds. One Customs agent would say that his clients, Colombian dealers, sold cocaine just as Mr Lee Iaccoca, former head of General Motors, sold cars.

CONTENTS

Italy calls for co-ordinated approach to monetary union

It is not central bank "competition" that will bring orderly convergence of European monetary policies, it is "co-ordination" that will do it, says Italy's Treasury Minister Guido Carli (left). Page 19

MARKETS

STERLING
New York close: $1.6585 (1.663)
London: $1.6560 (1.6630); DM2.8050 (2.82); FFr9.5425 (9.575); SFr2.5100 (2.515); Y240.72 (242); £ index 88.3 (88.5)

GOLD
New York: Comex Feb $412.2 (415.1)
London: $413¾ (412½)

N SEA OIL (Argus)
Brent 15-day Mar $19.675 (19.65)

Chief price changes yesterday: Page 21

DOLLAR
New York close: DM1.6940 (1.696); FFr5.7600 (5.7355); SFr1.5090 (1.511); Y145.40 (145.435)
London: DM1.6945 (1.6960); FFr5.7625 (5.7575); SFr1.5160 (1.5120); Y145.45 (145.5); $ index 67.3 (67.1)
Tokyo close: 145.75

US LUNCHTIME RATES
Fed Funds 8⅛%
3-mo Treasury Bills: yield: 7.81%
Long Bond: 98⅞
yield: 8.22%

STOCK INDICES
FT-SE 100: 2,349.1 (−17.1)
FT Ordinary: 1,875.7 (-21.2)
FT-A All Share: 1,175.64 (−0.7%)
New York close
DJ Ind. Av. 2,692.62 (+23.25)
S&P Comp 337.70 (+0.70)
Tokyo: Nikkei 36,850.36 (−666.41)

LONDON MONEY
3-month Interbank: closing 15¼ (15¼)
Liffe long gilt future: Mar 89¼ (89½)

Bucharest placed under control of Romanian army

By Judy Dempsey in Bucharest

BUCHAREST is to be placed under the direct control of an army General, a move which will fuel suspicions that the military will assume even greater prominence within the Front for National Salvation and in running the country.

The decision to place control of the capital under the military follows worries by the 11-man executive council of the Front that sections of the bureaucracy are resisting changes. It also reflects the view that top echelons of the army are regarded as vital in moving vital food supplies throughout the country.

Since December 25, an army officer, General Victor Stanculescu has been minister for the National Economy, the main task of which is to keep basic elements of the economy working.

Gen Stanculescu, who was instrumental in preparing the trial and execution of Nicolae and Elena Ceausescu, the country's former rulers, is regarded by the Front as a crucial player in fulfilling these activities.

Since the army took the side of the December revolution it has maintained a high profile in the Front, on the streets and in the economy.

The poor state of the economy continues to preoccupy the Front whose organisations throughout the country are coming under growing public pressure because of widespread shortages and because some of its members have remained aloof from the people. Several of the Front's organisations have either been replaced by a senior army officer, as in Timisoara, or else by completely new administrations.

Professor Silviu Brucan, a member of the executive council yesterday conceded that the food situation was critical.

"We need 60,000 tons of meat for January. But we have only 20,000 tons. We hope to receive shipments of supplies over the next few days", he said.

He said one of the Front's greatest mistakes has been its failure to introducing rationing soon after the Revolution. "As soon as we released the food to the shops, many people started hoarding. This has created shortages," he said.

Moreover, the situation in the country's enterprises seems as critical. Engineers yesterday said energy shortages in the biggest factories have left them running at only half capacity. In addition to dealing with the shortages, the Front is also seeking to restore its credibility after its volte face over the decision by Mr Ion Iliescu, President of the Front to ban the Communist Party in response to public pressure.

The reversal of the decision led to a "stormy" row in the executive council last Saturday morning and the council decided instead to hold a referendum on whether the party should be outlawed. The referendum will be held on January 28 and will also decide if the death penalty, abolished after the execution of the Ceausescus on December 25, should be restored.

Professor Brucan, a dissident member of the Communist Party, said that banning the party would have unforeseen consequences for rebuilding the shattered economy."

"There are many qualified people in the party of 4m people who have never been involved in repressive measures, embezzlement or other crimes committed by the Ceausescu clan. It would be our greatest mistake to dissolve the party and to alienate these people."

In particular, Professor Brucan said that Mr Paul Niculescu-Mizil, a former ideologist and member of the powerful political executive committee of the Communist Party under Ceausescu, joined the Front because "he knew precisely the location of special food stores, warehouses, the party houses and the security network. There was much resistance to his presence in the Front but he agreed to co-operate with us," he said.

Romanian army steps in: soldiers hold back protesters demanding houses in Bucharest

East Berlin 'flexible' over joint venture law

By David Marsh in Bonn.

"*ALL restrictions*" have been lifted on joint ventures by West German companies in East Germany, Mr Helmut Haussmann, the Bonn Economics Minister, said yesterday *as the two states stepped* up talks on economic links.

Ms Christa Luft, the East German Economics Minister, visiting West Germany for two days of talks, said after meeting *Mr Haussmann in Bonn* that she saw a greater role for small and medium-sized companies in building up the East German economy.

Because of the role given to state-owned Kombinate, East Germany had some "catching up" to do, she said.

Changes in the East German constitution, to be finalised on January 25, will formally limit foreign ownership in joint ventures to 49 per cent. But Ms Luft indicated that exceptions would be treated flexibly. "I think we will find understanding for this (in West Germany)," she said.

In a move warmly welcomed by Mr Haussmann, Ms Luft revealed that there would be special provisions for smaller companies. Majority ownership by foreign companies will be allowed both if the venture is deemed to be "in the public economic interest" and also if the foreign partner brings "advantages in know-how."

Although some businesses remain sceptical about the opportunities this will open up, Mr Haussmann took this to read that, in practice restraints *would* be *far less* arduous than perceived so far.

Expanding on her recent theme of improving the opportunity for market forces in East Germany, Ms Luft said work was proceeding on decentralising the banking system and authorising consulting companies to operate. She will meet Mr Haussmann again in East Berlin on January 23 at the first meeting of the newly established joint economic commission between the two states.

● Ms Luft claimed in talks with West German business leaders at the weekend that the earlier objection to majority stakes for foreigners in joint ventures came more strongly from the opposition groups – *represented at the* regular "round table" discussions in East Berlin – than from the Communist-dominated Parliament.

● Some East German Stasi security police are still working at their headquarters to ensure spies are not uncovered, a member of the citizens' committee now controlling the centre said yesterday, Reuter reports from East Berlin. Thousands of East Germans, stormed the sprawling Normannenstrasse complex on Monday night.

West Germans deal fresh blow to Eurofighter

By David Goodhart in Bonn

THE West German Free Democrats (FDP), the junior partner in the country's centre-right coalition, have abandoned their support for the four-nation European Fighter Aircraft (EFA), in a move which further decreases the project's chances of moving from development to full production, due to begin in 1992.

About 800 of the new generation fighters, being developed by the UK, West Germany, Italy and Spain, were due to go into service in 1996 at a cost of £21bn. Although as a defensive *aircraft* it is not yet directly effected by disarmament talks, opponents of the project – especially in West Germany – have long argued that *it* is an unnecessarily expensive and *sophisticated* aircraft for a time of unprecedented east-west rapprochement.

The FDP supported German participation in the development stage and its switch to *the opposition camp - which* includes the Social Democrats and parts of the Bonn Defence Ministry - is part of a wider attempt by the party to distance itself from the ruling coalition's *defence policy* in the run up to this year's West German election.

There is now technically a majority in the Bundestag against the project, the decision of the FDP executive to include abandonment of the EFA in its election manifesto does not mean the automatic death of the project. If the existing coalition continues after the next election the FDP may well have to abandon its position on EFA in post-election policy negotiations.

However, some supporters of the *project* have been dismayed by what they see as the ruling Christian Democrat's half-hearted rebuke to the FDP. Mr Bernd Wilz, the CDU defence spokesman, said yesterday that the project may have to be reconsidered in the future but then it should be done by all four partners together. Mr Gerhard Stoltenberg, the Bonn Defence Minister, who has recently been trying to improve his image as a promoter of disarmament has been keeping a notably low profile on EFA.

The project is still conceiv*able without* West Germany, according to the UK Ministry of Defence but if a smaller number of aircraft were produced it would raise the cost per unit. Costs have already been increased by *a few* million pounds thanks to the year long battle between the British and the Germans over the most suitable radar system for EFA.

EAST GERMAN PREMIER CROSSES TO WEST FOR TALKS ON 'GREATER BERLIN' ECONOMY

Modrow faces mounting anger over sluggish reforms

By Leslie Colitt in Berlin

EAST Germany's Prime Minister, Mr Hans Modrow, facing rising popular anger over the slow pace of democratisation, crossed to West Berlin yesterday for talks on drawing together the two halves of Berlin.

As the first East German leader officially to visit West Berlin, Mr Modrow conferred with Mayor, Mr Walter Momper, *on ways to turn Greater* Berlin into an East-West political and economic centre.

But as they met, anti-Government demonstrations flared for the third day in several East German cities along with warning strikes. They were largely aimed against the former state security service whose East Berlin headquarters was ransacked on Monday evening by an angry mob.

Mr Modrow and Mr Momper discussed details of a previ*ously agreed regional commis*sion for Greater Berlin and surrounding areas to supervise joint projects. West Berlin wants to purchase parcels of East Berlin border land and to lease property in the East for West Berlin companies.

Both sides plan to re-link subway and city railway lines as well as the waterways. Police, fire departments and emergency services are to work closely together. Both sides also envision the co-operation of East Berlin's Schönefeld Airport with Tegel Airport in West Berlin and are considering a joint application to stage Olympic Games in Berlin in 2000 or 2004.

In East Berlin, the first employers' federation was formed as an umbrella organisation for private tradesmen and manufacturers. Private producers were given the green light in legislation passed last week. Mr Rudolf Stadermann, a founder of the federation, said he expected 10,000 members by the end of this month.

Meanwhile, Mr Wolfgang Krebs, *director of East Ger*many's State Bank, said in West Berlin that it would be split up into an independent bank of issue and commercial banks.

The German Foreign Trade Bank, Handelsbank and Agricultural Bank would become universal banks and an umbrella organisation for an independent savings bank system would be set up shortly, he said.

Employers hope events in East will cut strikes

By Our Bonn Correspondent

WEST German metal industry employers are *hoping* that recent events in East Germany will help dampen enthusiasm for industrial action if the current talks over pay and hours reach their expected deadlock.

Yesterday the first round of talks with the union I G Metall, which are conducted on a regional basis, reached the key area of northern Baden-Württemberg, where strikes were concentrated in the last big dispute in 1984.

The employers have since been strengthened by a new *law which makes it difficult for* the union to use its old tactic of calling full strikes by small groups of workers, which quickly causes extensive lay-offs elsewhere.

The union now plans "rolling" strikes, pulling out key groups for only a few days at a time, and hopes that the pressure on overflowing order books will prove too much for the employers.

The employers, however, claim to be encouraged by polls which suggest that workers are for more interested in a straight catch-up pay rise than a *further cut* in the working week, which the union is stressing. They also argue, privately, that the sense of national emergency arising from events in the other Germany will also work against militancy.

The union denies this and claims that the renewed rise in unemployment caused by East German immirants makes a supposedly job-creating cut in hours more important.

However Mr Klaus Lang, head of the I G Metall pay division, does admit that events in *East Germany may make it* more difficult for the union to get its message across. If strike action does take place it will begin in May, the month of the East German election.

The likely outcome is a hefty pay rise - which should provide a further boost to domestic consumption in the current year - and some reduction in hours.

The employers are considering pressing for a year-long hours agreement which could then be flexibly applied depending on work-load.

Italian journalist leads fight to keep La Repubblica independent

By John Wyles in Rome

"WHAT has happened in the last few hours in the Mondadori affair reveals, unequivocally, the real nature of the assault that an unscrupulous group is making against Italy's largest publishing house and the newspapers that it owns."

Mr Eugenio Scalfari is a man who enjoys and frequently *employs a certain ambiguity* in his journalism, but in the last fortnight he has left no doubt about his readiness to confront Mr Silvio Berlusconi, the Italian media wizard who may yet become his proprietor.

If Mr Berlusconi and his allies were to succeed in wresting control of Mondadori from Mr Carlo De Benedetti, tirades such as the one above, published on January 12, could become a daily feature in Mr Scalfari's newspaper, La Repubblica, which vies with Corriera della Sera as Italy's top selling daily newspaper.

For the elegant 64-year-old greybeard, whom some regard as Italy's greatest living journalist, is determined to demonstrate his independence and to challenge Mr Berlusconi, should he take control, to behave like a classic proprietor by sacking him. Mr Scalfari has done nothing to discourage speculation that he would then launch a new daily, just as he launched La Repubblica 14 years ago.

There is no doubting his determination to do so after his sale to Mondadori last April of a controlling stake he held with Prince Carlo Caracciolo in the Espresso group – the then *owner of his newspaper and* Italy's second largest weekly news magazine Espresso.

Few Italians of any political persuasion appear to doubt that Mr Berlusconi's purpose is political rather than commercial and that he is being actively encouraged by the current governing regime. This is universally known in Roman political circles as "il CAF"- the dominant trio of C(raxi), A(ndriotti) of the Socialist Party, Prime Minister, and F(orlani) the Christian Democratic Party secretary.

CAF, it is said, wants to neutralise the Mondadori publications in general and La Repubblica in particular, because they are too sympathetic to the opposition Communist Party and too allied to the party leadership's attempt to become a real alternative government.

So Mr Scalfari has swung his considerable journalistic gifts behind the proprietor he chose last April, Mr Carlo De Benedetti. His has chosen to attack Mr Berlusconi by reviving memories of the TV king's membership of the sinister P2 masonic lodge, and by pinpointing former P2 members now re-entering public life.

It is difficult for foreigners to *take P2 seriously, but evidence* that it constituted a network of powerful people in politics and business dedicated to clandestine control of the state led to it being outlawed in 1981.

Mr Scalfari's campaign has its supporters in both the Socialist and the Christian Democratic parties who fear for the future of Italian democracy if Mr Berlusconi is able to add a publishing group to his television empire. Formally, the government is still backing a media anti-trust law now in parliament, but informally, CAF is sending out signals of lack of interest in its future.

In the end it will have to be Mr De Benedetti who stops Mr De Berlusconi but, despite owning 52 per cent of all Mondadori capital, he is suffering a string of legal setbacks which serve only to raise suspicions about the reach of the CAF's clandestine influence.

Turkey denied $400m World Bank package

By Jim Bodgener in Ankara

THE WORLD BANK told a high-level Turkish mission in Washington yesterday that Turkey had still not fulfilled conditions for a financial structuring package worth $400m.

The delegation, led by Mr Gunes Taner, the State Minister, was told that the Turkish Government had, in particular, failed to meet target cuts in the budget deficit and inflation rate, which was 68 per cent in 1989. The finance package has already been stalled for a year because of Turkey's failure to meet the conditions.

The further delay comes as an embarrassment to Mr Turgut Ozal, the Turkish President, who is due to meet Mr Barber Conable, the World Bank president, today in Washington.

The package is composed of a second $100m tranche of a financial sector restructuring loan from the World Bank agreed in mid-1989, and is accompanied by parallel financing from the Export Import Bank of Japan worth $100m.

A further $100m floating loan from the Bank also hinges on the second tranche for the restructuring of state banks. This again would be accompanied by $100m from Japan.

Turkey has around $7bn disbursed debt, and another $3bn in the pipeline.

The Bank is concerned about negative interest rates in Turkey and has criticised the Government for not having introduced a deposit insurance corporation for those facing insolvency as a result of the interest regime.

President Ozal is ostensibly on a 10-day private visit to the US for a health check up – he underwent triple by-pass heart surgery in Houston in 1987. However, *the trip has been* carefully scheduled to include a meeting tomorrow with President Bush.

Lionel Barber, in Washington, adds: In talks with Mr Bush, Mr Ozal is likely to press the President to maintain US military and economic aid to Turkey which reached more than $560m last year.

He also wants Mr Bush to speak out against a US Senate resolution to remember the 1.5m Armenians purportedly killed by the Ottomans between 1915 and 1923. The Senate resolution caused Turkey last year to imposed temporary sanctions against US military activity inside the country.

Ireland sets out presidency priorities

By Tim Dickson in Strasbourg

MR Gerard Collins, the Irish Foreign Minister, promised MEPs yesterday that Ireland's six month presidency of the European Community will not be hi-jacked by events in Eastern Europe.

"Eastern Europe requires the Community's fullest response", he told a full session of the Strasbourg assembley. "But I want to refute the notion that the Community's energies for other tasks will thereby be exhausted."

In a speech setting out priorities for Ireland's spell in the Community chair, Mr Collins repeatedly stressed the contribution of MEPs. "Major institutional advance in the Community is indissolubly linked with the strengthening of the role of this Parliament", he suggested, thereby indicating his sympathy for those who seek greater democratic accountability in EC decision making.

Ireland's aims will be broadly speaking to continue on the road to European integration, make the Community more relevant to its citizens, notably through the Social Charter, and develop EC relations with neighbouring countries and the world beyond.

On the completion of the internal market project, Mr Collins *said it was* "beginning to assume its final shape", though difficult decisions remain. Mr Collins put particular emphasis on transport.

Pöhl presents powerful case for a 'Euro-Bundesbank'

Peter Norman reports on an uncompromising vision of a strong and independent European central bank system

MR Karl Otto Pöhl, the West German Bundesbank president, yesterday presented the gov*ernments of the European* Community with an uncompromising vision of a future European Central Bank System (ECBS).

Using his considerable authority *as the head of the* Europe's most powerful central bank and as the recently appointed president for three years of the EC's Committee of Central Bank Governors, he said that the *ECBS* must be independent of political interference and have the monopoly of money creation in the EC.

He also made clear that governments will have to address these vital issues soon in the intergovernmental conference (IGC) on economic and monetary union.

"With their decision to start negotiating an agreement on a European Central Bank System as early as the end of this year, the governments undertook to put their cards on the table and to say whether they were in fact prepared to transfer the decision on future monetary policy to an independent Community institution," he said.

This is an uncomfortable stance, not least for those EC governments such as France and Italy which pushed hard at the EC summit in Strasbourg last month for an early start to the IGC. To ensure that Mr *Pöhl's lecture in Paris last* night reached the widest possible audience, the Bundesbank issued it simultaneously in German, English and French.

According to Mr Pöhl, the *future European central bank* must be committed to battling inflation. It will only work if it gives countries with stable currencies the expectation that monetary stability will not be lost, while countries experiencing inflation must be able to expect that "an end will be put to this erosion once and for all."

Only in conditions of monetary stability will it be possible one day to fix exchange rates permanently in Europe and replace national currencies with a common currency.

But while Mr Pöhl *said* that this goal could only be achieved "in an evolutionary process," he laid down strict and detailed conditions that the ECBS must fulfil if responsibilities for monetary policy are to be transferred from national institutions to an EC body.

The ECBS must above all be politically independent of governments, the European council and the EC Commission "to resist the ever-recurring wishes of politicians to prescribe monetary policy targets which are often inconsistent with the objective of stability."

This need, he said, applied particularly to the EC because "in a confederation such as the EC there is always a tendency to orientate oneself towards averages and compromises, but that is the worst possible compass for monetary policy."

Independence would require legal guarantees and the personal and professional independence of the national central bank governors and the members of the central council of the European central bank. The European central bankers of the future would have to be appointed for long periods and be committed to the common task of operating a monetary policy for the EC as a whole. For this reason "it is important that nationality takes second place" in their decisions, Mr Pöhl said.

Mr Pöhl said guaranteed "instrumental independence" would be of paramount importance for the ECBS. It must be able to safeguard monetary stability without restriction on the means at its disposal.

"It is obvious that interest rates as the price of money and credit must be of central importance," he said. But the European central bank should also have a sufficient array of market instruments, including all tools of modern central bank policy "irrespective of whether they are being applied in the individual countries at present or not."

In particular, a *future* ECBS "must have the weapon which every efficient central bank must have: the monopoly of money creation," Mr Pöhl said. "Monetary policy is not divisible," he *declared*. "Without the monopoly of money creation, the ECBS would be a tiger without teeth."

Mr Pöhl said that a system which was used only to "co-ordinate" monetary policy and which left the right to decide the price and quantity of money in circulation to national governments or central banks "would be half-baked, as Alan Walters called the EMS." Such a system would be unacceptable to West Germany and "no doubt to other EC countries as well."

The *existing* central banks (or the national finance ministers in cases where the national banks are not independent) would therefore have to give up their right to formulate independent national monetary policies to the ECBS. This would leave existing national banks with operational duties such as the settlement of payments and open market operations.

Mr Pöhl's detailed agenda reflects his strong position. He is in the happy position of being able to say "heads I win, tails you lose." If the govern*ments grant his wish list*, the European central bank will be a Euro-Bundesbank. If not, he will still be left in charge of the most powerful of the EC central banks and responsible for the value of the Deutschemark, the "anchor" of the European Monetary System.

By coincidence, Mr Robin Leigh-Pemberton, the Governor of the Bank of England, was laying out his stall on economic and monetary union in West Germany yesterday.

As befitted the representative of a nation that has not yet been able to take the pound into the exchange rate mechanism of the EMS, he adopted a less prescriptive approach towards prospective monetary arrangements in the EC.

Mr Leigh-Pemberton said that EC economic integration as exemplified by the 1992 single market programme would, as it progressed, strengthen the case for closer monetary ties in Europe.

He warned that "a great deal could go wrong if a single currency and central monetary institutions were imposed too soon as part of an activist initiative to force the pace towards monetary union."

Pöhl (left) and Leigh-Pemberton; both setting out their policy stalls yesterday

More delays forecast for air travellers

By Paul Abrahams

DELAYS in European aircraft departures improved in November last year for the first time since February 1988, according to a report published by the Association of European Airlines in Brussels.

However, the association warned that the slight improvement in the November figures was unlikely to herald a much brighter future for European air travellers. The early indications for December suggest a worsening punctuality record.

The association said that 21.7 per cent of scheduled departures were delayed by more than 15 minutes during *November*. The figure was 0.7 per cent better than the same month in 1988.

Most of the improvement was achieved by airlines turning round late incoming aircraft. The proportion of flights held up by air traffic control and airport related delays increased.

The association estimated *that during November* air traffic control and airport congestion delayed 7.7 per cent of all departures. It pointed out that the system was least able to cope during the summer months when traffic peaks. In June last year 15.3 per cent of scheduled flights were delayed.

Singapore Airlines places $8.6bn order for 50 US jets

By Paul Betts, Aerospace Correspondent

SINGAPORE AIRLINES (SIA) yesterday placed a $8.6bn (£5.1bn) order for a total of 50 new Boeing 747/400 jumbo jets and McDonnell-Douglas MD11 long-distance jet liners in one of the largest single new aircraft orders on record.

The move reflects the aggressive expansionary international strategy of large Asian carriers. Singapore Airlines has already announced plans to become a major global airline by forging cross-shareholding links with Delta of the US and Swiss Air.

The new order involves 30 Boeing 747/400 aircraft, worth $5.5bn, and 20 MD11s worth $3.1bn.

It includes 15 firm orders and 15 options for the Boeing jumbos, and five firm orders and 15 options for the MD11. Deliveries are scheduled between 1994 and 1999.

SIA, one of the fastest-growing airlines in the Asia/Pacific region, said yesterday it plans to grow at an average rate of 8 per cent in the current decade. It is planning to double its services to Heathrow over the next five years, and to increase its flights into Manchester, as well as other European destinations, including Frankfurt.

The airline said yesterday it had not yet chosen the engines to equip its new long-distance aircraft. Up to now, SIA has relied on Pratt & Whitney engines, but it was close to ordering Rolls-Royce engines for the first time to power its previous order for 20 Boeing 747/400s, worth $3.3bn in 1986.

SIA was one of the launch customers, together with Northwest of the US, for the new Boeing jumbo, which has an extended range to enable even longer non-stop long-distance flights.

SIA said yesterday it had evaluated the option of continuing to rely on the Boeing 747 alone for all long-haul services. But it decided to turn also to the new MD11, which flew for the first time last week, to meet the demands of its expected long-haul expansion.

● AP-DJ reports from Peking: China's state-run airlines, CAAC, will buy 18 large passenger jets in 1990 to add to its fleet of more than 170 aircraft, the director of the Civil Aviation Administration of China, Hu Yizhou, has said.

CAAC will purchase Boeing 747s, Boeing 757s, McDonnell-Douglas 82s and Chinese-made Yun-7s, the official China Daily reported yesterday.

In 1989, CAAC bought 29 aircraft, including a Boeing 747-400, a Boeing 767, two Boeing 757-200s, six MD-82s, three Airbus 300-600s and 11 Yun-7s. Six old aircraft were taken out of service during the year.

The McDonnell Douglas 82 aircraft are now being assembled at a joint venture factory in Shanghai. The daily also quoted Zou Jiahua, head of the State Planning Commission, as saying that in future, China must develop its own trunk-line aircraft.

Currently, all aircraft on long-distance and international air routes are imported. The total business income of China's aviation industry in 1989 was Yuan 5.7bn (£1bn), about 95 per cent of the planned target.

World Bank broadens its private-sector support

The organisation aims to boost investment in new power plants in Asia, Frank Gray reports

THE World Bank's energy division is to broaden the scope of its private-sector support programme to include the Association of South-East Asian Nations (Asean), following its recent success at putting together a $1.07bn (£668m) power plant deal in Pakistan.

The institution has appointed Mr Ibrahim Elwan as manager, private sector development group, which means that he is effectively operational chief of the organisation's programme to attract private-sector investment in the building of new power plants in Asia.

The appointment broadens his previous brief from Turkey and Pakistan to include a number of Asean nations actively debating the partial or full privatisation of their state-run utilities. Chief among these are Thailand, which wants to find a way to build more power plants to sustain economic growth without draining its exchequer, and Malaysia, which this month is changing the corporate status of the National Electricity Board to prepare it for flotation in January, 1991.

Mr Elwan is credited with being the architect of the recent deal in which the Pakistan authorities initialled a three-year agreement calling for a consortium of largely British, Saudi Arabian and Japanese companies to supply 1,300 MW in oil-fired capacity to the national grid. The complex is to be built at Hub Chowki at Hab River in Baluchistan Province, 50 km west of Karachi.

The companies include Hawker-Siddeley Power Engineering of the UK, Xenel Industries of Saudia Arabia, K&M Engineering and Consulting Corporation of the US, and a group of four Japanese companies consisting of IHI, Toshiba, Mitsui and Kumagai Gumi. Other companies in the group include British Electricity International and the Canadian Utilities Power Group of Alberta.

The project represents a breakthrough for the World Bank as it is the first time the institution has been able to put together a power sector package using its special Private Sector Energy Development Fund (PSEDF) to encourage local private sector involvement in power development.

It chose Pakistan because of the ambitious power development programme for the country announced by then-President General Zia ul-Haq. Pakistan's installed capacity in 1986 was just 5,600 MW, just 10 per cent of that in the UK for a country of nearly 100m, nearly double that of the UK.

As Mr Elwan has said, negotiations were anything but easy, and centred on persuading Pakistan's energy authorities, led by Mr Farooq Ahmed Leghari, the Water and Power Minister, and officials of the Water and Power Development Authority (Wapda), to agree to allowing the proposed foreign contractors to build the complex on a build-operate-transfer (BOT) basis.

Under BOT, the foreign contractors take a long-term leasehold on the project and finance it from the sale of electricity produced by the project to the local utility. At the end of the lease, the project is turned over to the utility's control for a nominal fee.

To make the BOT concept more acceptable to Pakistan, a $300m PSEDF fund was set up by the World Bank and other international aid institutions to lend money to potential local investors to take an equity investment in the project.

A further 30 per cent of financing is to come from export credits and conventional loans, with most of the balance to be supplied by the International Finance Corporation, the Commonwealth Development Corporation and the Islamic Development Bank.

The negotiations lasted 20 months from the signing of the first letter of intent in May 1988 to the initialling of the deal in Islamabad on the day before Christmas and subsequent approval by the government's Board of Investment.

The talks were complicated by the death of Gen Zia, Ms Benazir Bhutto's election and the subsequent shake-up in the government bureaucracy. Other difficulties emerged over the price the Hab River Power Group, the name given to the Western consortium managing the project, wanted to charge for the sale of electricity to Wapda. The utility was offering to pay less than Rupees 1 per kilowatt, while the consortium wanted more than Rs 1.20.

The agreed deal, according to Mr Michael Kappaz, the Hab River Group's chief executive, is averaged at Rs 1.03 per kilowatt. It is understood that this amount will be higher in the first part of the contract, and lower for the latter part, although with escalator clauses built in. The full agreement covers a 30-year period, after which the project will be turned over to the control of Wapda.

The Hab River Power Group will now incorporate itself in order to be listed on the Karachi Stock Exchange (KSE). Its primary shareholders will be the consortium members themselves. Its first commercial step will be to issue $100m in convertible bonds (it has yet to appoint an underwriter), and later it will issue shares on the KSE, to attract Pakistani investment, although initially the consortium members themselves will be the largest shareholders.

The consortium's main challenge will be to attract the local investment through the PSEDF, which will make the funds available on a long-term (23-year) basis at commercial rates of interest. The main attraction is that the loans will have an eight-year grace period, a commercial facility not available in conventional export finance packages.

According to Mr Kappaz, the first stakebuilding likely will come from big institutions, such as Wapda, the Pakistan State Oil Company and the Government of Baluchistan, not to mention the dozens of local sub-contractors.

Mr Elwan hopes the deal will stimulate the interest of the Asean group, particularly Thailand, which is facing larger capital outlays to add new plant throughout the 1990s. He told an electricity conference in London that the public sector in developing countries "no longer has the necessary resources to back major power projects without the help of the private sector, but the private sector also needs financial encouragement to give them the confidence to play a larger role in their own country's future".

Frank Gray is editor of Power in Asia, a Financial Times energy newsletter

ASIA took the largest share of the World Bank's concessional loans to boost development of energy resources and infrastructure in 1988-89, with $2.33bn (£1.4bn) out of $8.86bn worldwide. Energy loans in Asia the previous year amounted to $1.45bn.

The main Asian recipients of Bank loans for energy-related projects in 1988-89 were:
- **India: a total of $1.225bn for three projects**
- **Bangladesh: $262m for two projects**
- **Indonesia: $691m for two projects**
- **Pakistan $250m**
- **Philippines: $65.5m**
- **Thailand: $90m**

Source: Power in Asia.

China moves to block Taiwan bid for Gatt

By William Dullforce in Geneva

CHINA moved yesterday to block Taiwan's bid for membership of the General Agreement on Tariffs and Trade (Gatt).

Taipei's application to the world trade organisation was "utterly illegal" and should not even be discussed, Hou Zhitong, China's acting ambassador to Gatt, wrote in a letter delivered to Mr Arthur Dunkel, the organisation's director-general.

Taiwan applied for membership under the name Taiwan, Penghu, Kinmen and Matsu on January 1 as a separate customs territory possessing full autonomy in the conduct of its external commercial relations.

Yesterday, China "solemnly requested" Gatt not to accept the application which it claimed aimed at "brazenly creating two Chinas".

Peking's own attempt to negotiate its return to Gatt has been stalled since the crushing of the student revolt in Tiananmen Square last June and the slowdown in its economic reforms.

Currently, China has only observer status in Gatt. Taiwan lost its observer status in 1971, when the United Nations General Assembly recognised the People's Republic as the only legitimate government of China.

A senior Taiwanese trade official said that in applying as a separate customs territory, Taiwan was following Gatt rules which he expected the organisation to apply. Taiwan was challenging nobody, he declared.

Its main purpose in seeking to join Gatt was to meet purely economic needs, the official went on.

It would be in the interests of all Gatt's 96 members to have the world's 13th largest exporter integrated into the multilateral trading system.

The Gatt secretariat yesterday circulated Taiwan's application to its member-countries.

It can be expected to do the same with China's letter, leaving it to governments to decide among themselves how to handle what has become a highly delicate political issue.

Taiwanese officials claim to have received favourable responses from members of the European Community, but the EC has not yet taken a position.

According to one legal opinion submitted to Brussels, for Gatt purposes the question of whether a government has de facto autonomy to conduct the external relations of a customs territory matters more than the question of whether a government is recognised as legitimate under international law.

EC producers oppose higher steel quotas for East Europe

EC STEEL producers strongly oppose a Commission plan to allow five East European countries, plus Brazil, to ship 18 per cent more steel to the EC this year, they said yesterday. **David Buchan reports from Brussels.**

The plan, for which Mr Frans Andriessen, External Affairs Commissioner, will try to get his colleagues' approval today, is designed to give back to these six countries their 1987 market share. Since then, export quotas of the six to the EC have only risen 3 per cent, while overall EC steel consumption rose 21 per cent.

EC steel demand sucked in 12m tonnes of imports last year, up 19 per cent on 1988, but three-quarters came from countries on which Brussels does not impose quotas. Half of total EC imports come from European Free Trade Association states such as Sweden, Finland, Norway, and Austria whose governments are simply cautioned not to export to excess. South Korean shipments would come under the same regime this year, under the Andriessen plan.

Raising by nearly one-fifth the 1990 import quotas for Bulgaria, Hungary, Poland, Romania, Czechoslovakia and Brazil would, Mr Andriessen argues, be in tune with the EC's wish to return to a normal steel market, in the context of Gatt's Uruguay Round and the recent US liberalisation of steel import quotas, or Voluntary Restraint Arrangements.

The Commission's most pressing desire is to help Eastern Europe. In Prague, ministers told Mr Andriessen steel was a key sector where they wanted more access to the EC market.

Eurofer, the EC steelmakers' association, opposes expanding the import quotas. The association said increased East European exports would only put money in the pockets of Western steel traders, and argued that technical aid was the best way to help Eastern Europe upgrade its products.

Philips in high-definition TV accord with Peking

By Laura Raun in Amsterdam

PHILIPS, the Dutch electronics group, and China intend to broadcast experimental TV transmissions by the end of this year using D2MAC technology, a half-way step between traditional and high-definition TV.

China also will buy D2MAC equipment under the letter of intent signed recently by Philips and China's Ministry of Radio, Film and Television. D2MAC equipment would also be made and sold in China, according to the letter.

Philips declined to say yesterday what the value of the contract would be or when the ceremony, in Eindhoven, took place.

High-definition TV (HDTV) gives sharper pictures than conventional TV and is an emerging technology with widespread future applications in computers, semiconductors, consumer electronics and defence. But a three-way battle over a worldwide HDTV standard has broken out between European companies, including Philips, and their Japanese and US counterparts.

Several countries in Europe are currently using D2MAC technology, which is compatible with traditional TV. But the launch in China's Xinjiang Uygur Autonomous Region would be the first in that country.

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Plan for UN to supervise elections in Cambodia

By George Graham in Paris

THE FIVE permanent members of the United Nations Security Council agreed yesterday on a set of guideline principles for a Cambodian peace settlement based on a role for the UN during a transitional period.

Although details of the UN's role have still to be agreed, the five powers - the US, Soviet Union, China, France and the UK - decided that a UN operation headed by a Special Representative should supervise a ceasefire, monitor an election and possibly also have far-reaching executive powers.

The agreement sidesteps the principal stumbling block that caused last summer's Cambodia peace conference in Paris to break down: agreement on a form of interim administration of the country until elections can be held.

But there remains a great deal still to do, both to convince the rival Cambodian factions to accept this idea, and to develop the idea into a workable plan. The five are expected to meet again in New York early next month. The idea of an enhanced UN role, developed by the Australian Government on the basis of an idea attributed to Congressman Stephen Solarz of the US, goes far beyond what the UN has attempted in the past, even in the recent transition of Namibia to independence.

Diplomats do not expect it will be easy to organise a role for the UN, taking on full executive authority up to and possibly even after elections.

The five powers suggest that a Supreme National Council of Cambodians be formed which would instantly delegate full executive powers to the UN. This in itself presents some juridical problems, but the main difficulty is expected to come in deciding how far down the UN's power should extend.

Hun Sen, leader of the government in Phnom Penh, does not want his administration to be entirely dismantled, nor is the UN capable of supplying a complete civil service.

The resistance, however, is unhappy with the thought of Hun Sen's officials being left in a position to influence voters. Some disagreements persist on how to organise a ceasefire and international guarantees for Cambodia's independence in the future, but the Paris conference in August had already made a good deal of headway on these questions, as well as on how to cope with Cambodia's refugees and with its economic reconstruction.

Officials, nevertheless, still hope that it will be possible to reach agreement on specific points, especially now that consensus seems to be emerging on the broader principle of confining the administration to the UN.

The participation of the UN has in the past been hotly contested by Phnom Penh, since Cambodia's UN seat is still held by the resistance coalition led by Prince Norodom Sihanouk and including the Khmer Rouge.

This time, however, Hun Sen has accepted, though with conditions, the principle of a significant UN role.

Western diplomats say they will look very hard at the resistance coalition's continued hold on the seat when it comes up for examination again next November. Mr Ali Alatas, the Indonesian Foreign Minister, is now in Thailand seeking to make contact with the three resistance parties, as well as with the Association of South-East Asian Nations.

Ali Alatas: Making contact

Japanese banks lend to China

By Robert Thomson in Tokyo

CHINA, suffering from a severe shortage of hard currency, has reached agreement with a consortium of Japanese banks to use $500m (£300m) of a $2bn credit line that has been unused for a decade, in the first loan approval from Tokyo since the crushing of the pro-democracy movement in Peking last June.

Confirmation of the loan agreement yesterday coincided with the arrival in Japan of Zou Jiahua, chief of China's State Planning Commission and the first senior Chinese official to visit a country that had imposed sanctions after the events in Peking.

Mr Zou is expected to meet Mr Toshiki Kaifu, the Japanese Prime Minister, during his 10-day visit, and, tomorrow, a Japanese Foreign Ministry delegation is due to leave for Peking to discuss the resumption of exchanges and the conditions of a Y810bn (£3.4bn) soft loan package to come on line in April.

A senior manager at one of the 67 Japanese banks with equal shares in the $2bn facility said that China had turned to the funds because raising capital on world markets has become more difficult and more expensive since last June.

He said that a bond issue would face serious problems in most markets and that cheap credit is no longer being offered to China because of the perceived instability in the leadership of the Communist Party and the restrictions on new loans observed until recently by most Western countries.

Under the terms of the loan agreement, the money will be distributed by the Bank of China, the foreign exchange bank, and should only be used for export finance, which means it will probably be given to the country's various import-export corporations, some of which are known to have hard currency problems.

The money is to be repaid over 10 years, over two stages, the first at interest 0.25 per cent above Libor and the second at 0.375 per cent above Libor.

The facility was first made available in 1979, and then renegotiated in 1985, but China did not need to tap the funds.

Vietnamese children lead protest as Hurd visits refugees in Hong Kong

Last-ditch appeal by the boat people

By John Elliott in Hong Kong

A COLUMN of Vietnamese children including toddlers chanting "give us freedom, we would rather die here than go back to Communism," yesterday failed to rouse Mr Douglas Hurd, the British Foreign Secretary, when he paid a flying visit to Hong Kong's remote Hei Ling Chau island detention centre for boat people.

Penned in behind 20ft-high barbed wire double fences, the children led a noisy but peaceful demonstration of some 3,000 Vietnamese against Britain's mandatory repatriation policy.

But Mr Hurd did not give them even a sideways glance when he arrived at the camp and walked past them stern-faced into a kitchen.

Looking taut and uncomfortable, he later dismissed the demonstration as "predicted and predictable," and did not think it indicated any incipient violence. "It is a peaceful, well organised demonstration done for your benefit rather than mine," he crisply told reporters and television crews as the boat people, wearing white mourning headbands, marched and shouted round the camp's perimeter fences.

Mr Hurd's unbending style contrasted with that of Sir Geoffrey Howe, the former Foreign Secretary, who sat and chatted with the would-be refugees when he visited Hong Kong last July. Possibly Mr Hurd knew he had nothing to offer, apart from Britain's policy of mandatory repatriation, which he is believed to find distasteful and which the boat people detest.

Mr Hurd made it clear that the mandatory policy will stay in force, alongside voluntary repatriation. The 10th planeload of volunteers flew to Hanoi yesterday, bringing the total since the programme started last March to nearly 1,100. Another 1,300 have volunteered and the target for this year is 5,000.

When he visited cramped dormitories where families live in three-tier bunks, Mr Hurd spoke to two or three of the boat people in a style which was as unbending as the immigration officials' who screen the Vietnamese to decide those sent home.

"Where are you from? When did you arrive? What did you do in Vietnam? Why did you leave?" he rattled off at Mr Hoang Quang, a 38-year-old lorry driver from Haiphong who told him through an interpreter that he came to Hong Kong four months ago because of Vietnam's slow economic development. Mr Hurd ignored a woman undergoing preliminary screening in one interview room, talking only to the official and an interpreter.

He also did not respond to a large poster inviting him to a meeting. "I don't want to get involved in a big meeting, but if they have a bit of paper...," he said, his voice trailing off.

About 12 letters were collected, along with other information about diets and a children's chickenpox epidemic. "The health standards are not bad but at the moment scabies and chicken pox are going through the camp like a bush fire," he was told by Ms Joanne Holland, a Save the Children Fund nurse from Birmingham.

A former leper colony, Hei Ling Chau is a small island within Hong Kong's territorial waters which houses a prison and drug addiction centre as well as two camps for some 5,000 boat people.

Its green hills and rocky coastline, surrounded by blue water, looks at first glance like a holiday resort till one climbs to the concrete and barbed wire enclosure of the hill-top boat people camp.

As Mr Hurd left, Mr Tuan Duc, a 30-year-old nuclear physics researcher from Hanoi who acts as a nurse's interpreter in the camp, spoke to reporters through a loudspeaker provided by Catholic priests.

He said he would not resist if he was mandatorily repatriated. "I left Vietnam because of persecution, but if I am sent back I will only protest peacefully," he declared. "But I would try to come to Hong Kong again later."

Boat people demonstrating against mandatory repatriation at the Hei Ling Chau camp yesterday

Signs of movement on colony's mini-constitution

By Robert Mauthner and John Elliott in Hong Kong

MR Douglas Hurd, the British Foreign Secretary, ended a four-day visit to Hong Kong yesterday amid growing signs of a thaw in China's relations with Britain and its colony.

Though Mr Hurd said before his departure that it was "too early to speak of optimism", there can be little doubt that prospects of persuading Peking to incorporate some of Britain's proposals for democratic reforms in Hong Kong's future constitution, have markedly improved over the past few days. Reports from Peking indicate that the Chinese Government, whose own short experience of democratic practices on Tiananmen Square in June last year, made it even more reluctant than before to countenance greater democracy in Hong Kong, has started to show greater flexibility.

Mr Li Peng, the Chinese Prime Minister, told a delegation of visiting Hong Kong businessmen that Peking would be willing to see the introduction of direct elections to a legislative assembly in Hong Kong, as long as it was done "gradually and progressively", according to Mr Vincent Lo, a prominent right-wing Hong Kong businessman. Mr Lo added that the Prime Minister even hinted that, eventually, directly elected members might make up the majority of such an Assembly.

Mr Lo's comments were made on the eve of an important meeting in Guangzhou of the Chinese drafters of Hong Kong's Basic Law, who are due to put the final touches to the territory's future constitution, before its ratification by China's People's Congress, scheduled for March.

Australia heads for economic slowdown

By Chris Sherwell in Sydney

A SLOWDOWN in Australian business activity is now "virtually certain" but will not be severe, according to the latest monthly index of leading economic indicators, published yesterday.

The index, produced by the Westpac bank and the Melbourne Institute of Applied Economic and Social Research, fell for the third month in succession in November to stand at 126.2 (1980=100), compared with a peak of 130.2 last May.

The index is designed to show where the Australian economy is headed. A separate monthly index of coincident indicators, also published yesterday, shows where the economy stands currently, and it too has now turned down.

A slowdown has been actively sought by the Labor Government in order to contain an exploding current account deficit and ballooning foreign debt. Its tight monetary policy has lifted mortgage rates to 18 per cent and other borrowing rates above 20 per cent, in turn raising fears that the economy will be plunged into recession.

Despite this, a survey of economists conducted last week by Australian Business, the weekly magazine, showed agreement that Gross Domestic Product would still grow by 2.5-3.5 per cent in the year to June 1990. Most expect the current account deficit to finish at more than A$20bn (£10bn) and an inflation rate of 7.0-8.5 per cent.

The Westpac-Melbourne Institute said in their report yesterday that, while a slowdown in general business activity "clearly appears imminent", there was "no suggestion at present of a sharp downturn ahead". Much would depend on the course of economic activity overseas.

Wholesale prices rise in Tokyo

By Robert Thomson in Tokyo

JAPAN'S wholesale prices rose 2.5 per cent in 1989, the first increase in seven years, according to figures released yesterday by the Bank of Japan.

Most of the increase is attributed to the introduction of a 3 per cent consumption tax last April, although the weakness of the yen and higher crude oil prices are said by bank officials to have contributed to the higher rate.

The Bank of Japan is worried by the prospect of higher inflation this year, as the yen has remained weak, while commodity prices are on the rise and the domestic economy is working at close to capacity, producing a labour shortage and the possibility of higher wage demands.

Having increased the official discount rate three times in the past year, with the last increase of 0.5 per cent to 4.25 per cent on December 25, the bank is reported to be considering another increase to bolster the yen.

Wholesale prices, which fell 1 per cent in 1988, rose 0.1 per cent for the month of December. The export price index rose 1.2 per cent last year, after a 6.5 per cent increase in 1988, when exporters were adjusting to the appreciation of the yen.

Figures released by the Economic Planning Agency yesterday showed a seasonally-adjusted 11.2 per cent increase in machinery orders in November, down from an 18 per cent gain in October.

Excluding orders for ships and from power utilities, the machinery order figure rose by only 1 per cent, down from 8.6 per cent in October, suggesting that the capital spending surge by Japanese companies has cooled.

Peking tightens grip on the party and economy

By Colina MacDougall

PEKING'S hardline leadership yesterday tightened its grip on the Communist Party and the economy, calling for dismissals of disloyal members and publishing an economic programme which will undo much of the benefit achieved by the 10 years of reform.

The People's Daily, in a front-page commentary entitled "The Leadership Must be Loyal to Marxism", said that those whose political calibre was inadequate or who were simply pretending to be loyal should not be given responsible posts.

Problems within the party would destabilise the leadership and that should be avoided, it said.

Last weekend Li Peng, the Prime Minister, told China's judges and prosecutors that they should dispense justice according to Marxism.

In tune with this enhanced role for dogma, the 39-point programme for economic policy, decided at last November's Central Committee meeting and widely leaked but not published till yesterday, confirms analysts' worst predictions. The party must enhance its "leading role" in guiding the economy, it says.

It declares that the present austerity policy, now 16 months old, is to last at least another three years. No new market-oriented reforms are included in the package, and the drive against small private or collective enterprises is to be intensified, with priority going to large (but inefficient) state enterprises.

Goals are to bring annual inflation and GNP growth down to under 10 per cent and 5-6 per cent respectively, restrict money in circulation and balance the budget.

While the leadership had some success in achieving similar goals in 1989, it came at the cost of huge unemployment and production loss through forcing the closure of a million or so factories.

Sri Lanka death toll may be near 30,000

By David Housego in Colombo

THE number killed in the violence in Sri Lanka appears to be far greater than has been reported so far. Figures quoted by Western diplomats suggest that as many as 30,000 people could have been killed last year – most of them in the last six months.

The casualties have escalated as the armed forces have used increasingly brutal methods in their conflict with the JVP, the extremist Sinhalese nationalist group. However, in a situation where the military does not have to carry out post-mortems or notify families of those killed, it is impossible to confirm exact numbers.

The figures range from 12,000, the number quoted by military officials, up to 50,000 over the last two years. Sri Lanka has a population of 16m.

The deaths include killings by the JVP, the armed forces, vigilante groups as well as the casualties from the conflict involving the Tamils in the north.

Western nations are putting increasing pressure on the Sri Lankan Government to halt the killings by the army and para-military forces, of opponents in the south or face a reduction in aid.

The Government of the Netherlands last week warned the Sri Lankans that unless there was an improvement in their human rights record by June, it would cut the size of its programme aid. The Dutch have been working in close co-ordination with Norway, Canada, West Germany and Sweden, who are equally taking a more critical approach.

Western nations are determined to use aid as a leverage for an improved record on human rights

The tougher attitude by Western aid donors came into the open last week when senior Sri Lankan officials met ambassadors from donor-nations to brief them on the economy. The meeting came a day after 147 headless corpses – presumed suspected members of the JVP – were found on roads in the south.

Though fewer dead bodies are now being left by the roadsides, diplomats say that killings by "vigilante" and military forces still continue at a high level in parts of the south and in the central Kandy region. The Government claims the JVP has been largely crushed since its leaders were killed in November.

At the same time, about 8,000 people are still being held in detention or rehabilitation centres. The use of torture on suspects has been systematic, according to diplomats who say that prisoners bear the signs of having been severely beaten and of other violence.

The British have in private made strong representations about the killings and alleged abuse of human rights. In particular, they are pressing for the lifting of emergency regulations that allow the armed forces to kill suspects without there being the need for any post-mortem or for families to be notified.

The increasing determination of donor nations to use the leverage of aid to obtain an improvement in the human rights situation comes at a time when Sri Lanka has been asking Western nations to finance the rupee expenditure in projects because of the country's budgetary difficulties.

The World Bank has shown a more approving attitude over management of the economy

The World Bank, which sees Sri Lanka as needing $2.5bn (£1.5bn) in foreign assistance over the next three years, has also said that a higher proportion of it than normal should be in fast disbursing programme aid to help the country's balance of payments.

The more critical attitude by donors on human rights also comes in contrast to the more approving attitude being taken by both the World Bank and the IMF to the management of the economy. Both IMF and World Bank loans were delayed last year until the government agreed to a stabilisation package.

● India has sent proposals to Sri Lanka for a friendship treaty between the two countries, New Delhi's High Commissioner said yesterday, Reuter reports from Colombo.

Mr Lakhanlal Mehrotra told a group of Indian journalists that he handed over to the Sri Lankan Government a "counter-draft" by India on the treaty. Colombo sent its proposals some months ago.

"After the Sri Lankan side has studied our proposals, both sides will go into consultations on the proposed draft," he said.

Foreign Ministry sources said the treaty would ease tensions between the two. New Delhi has promised to withdraw its remaining 25,000 troops by the end of March.

Formula for success eludes economies of the Middle East

In an economic sense the 1980s passed the Arab world by. There was no talk in the region of "deregulation and liberalisation", "greater reliance on market forces," "privatisation" or any of the other formulae being adopted by successful economies elsewhere.

Between the oil price explosion of 1973 and the end of the 1980s the Arab world received $1.5 trillion (million million) in oil revenues, yet no Arab country came anywhere near the stage of economic take-off seen in the fast-growth countries of the Far East.

The Arabian peninsula producers, Saudi Arabia, Kuwait, the United Arab Emirates and Qatar, which account for only 7 per cent of the Arab world's population but the bulk of its oil receipts, used their incomes to create superb infrastructures, lavish welfare states and rich populations. In the process they made it almost impossible for domestic industry to compete with imports, unless it was given large subsidies. It is only after five years of recession – and only in Saudi Arabia, which has the lowest revenue per capita – that this situation is beginning to change.

Arab Economic Restructuring

Arab countries are facing a debt crisis and are having to begin restructuring their economies. MICHAEL FIELD, in the first of a series of six articles, looks at the region's economic weakness.

The poorer Arab states, which as well as having some small oil revenues of their own received a large flow of aid, investment and remittance money, picked up the bad habits of the rich. Their governments were able to build smart infrastructure projects, subsidise their people's food and energy and guarantee jobs for graduates. Their private businessmen went into importing and contracting.

Everywhere the private sectors were closely supervised, which meant that in the poorer states they were excluded from the most important parts of the economies. Businessmen retained the mentality of traditional Middle Eastern merchants and royal hangers-on. The standard approach to making a fortune was for a businessman to get as close as possible to his government and use influence to win a contract.

Now debt is forcing a change in all these attitudes. During the early and mid-1980s the poorer Arab governments supplemented their flows of foreign income by borrowing heavily and by 1988 their combined debt had reached $140bn. Last year it was $136bn. Compared with the debts of Latin America the amounts are not enormous and the terms are generous. The total Arab debt is not much more than Brazil's $120bn.

Most Arab debt is owed to governments – mainly Arab governments – and an unusually high proportion of it is in the form of very soft loans from Arab aid institutions, which charge rates as low as 2 per cent.

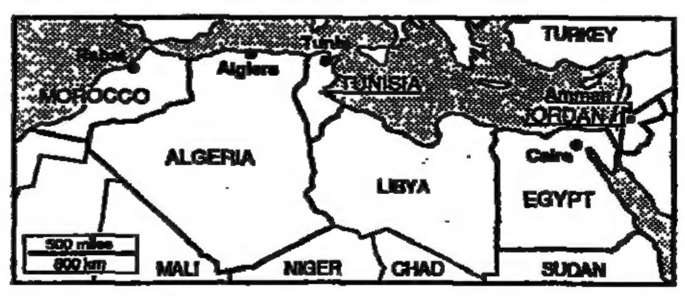
The worrying feature of the Arab debt is that it represents an average of two thirds of the countries' gross domestic products and more than 100 per cent of GDP in Egypt, Sudan, Jordan and Morocco. In the last two years a growing number of Arab countries have been forced to reschedule under IMF-Paris Club arrangements, which have obliged them to reform their financial administration and restructure the private/public sector balance in their economies.

Some countries have introduced reform packages just before they would have been forced to approach the Fund.

The standard medicine has included: the reduction of budget deficits and the financing of what deficits remain from commercial sources rather than printing money, the liberalisation of interest rates in the commercial banking system, the depreciation of their currencies to realistic market rates, and the elimination or reduction of price controls and subsidies.

Attempts are also being made to involve the private sector in more parts of the economy and to free it from long licensing procedures, price and exchange controls and import and employment restrictions.

Both the austerity measures and the emphasis on the role of private business are leading governments to liberalise politically. "They want to give their people some choice in how they should suffer," as a Jordanian economist put it recently, and they realise that if the private sector is to respond to pleas that it invest more at home it will have to be given a say in economic policy making.



Elections and referenda have been held or political parties legalised recently in Jordan, Tunisia and Algeria.

In Egypt, where the political climate became stricter in the later days of President Sadat in 1980 and 1981, there has been a steady liberalisation under President Hosni Mubarak. The country now enjoys a totally free press.

The countries which remain rigidly controlled both economically and politically are Libya, Iraq and Syria.

In Iraq there have been moves to privatise a few state enterprises and some talk of political liberalisation, though in reality under the present regime political changes could only be cosmetic.

In none of these countries could there be real economic or political reform without the regimes being swept away.

Even in the rest of the Arab world the pace of change is expected to be slow.

One problem is that unfortunately the Arab economies do not complement each other. In theory Saudi money combined with Sudan's population and agricultural potential should produce a successful farming industry, while Gulf money and the Egyptian population should produce successful manufacturing industries.

In practice the enormous bureaucracies of the recipient countries are still liable to delay projects to the point of making them uneconomic. In one or two cases – Sudan is the classic example – the infrastructure is so rudimentary that building and operating an industrial project or a hotel in an economic fashion is made impossible.

In others the labour force is not sufficiently skilled or the domestic market is too poor to buy its products.

An equally fundamental problem is that Arab businessmen are traders rather than investors, an attitude which stems partly from the fact that their region is unstable.

Private businessmen from the rich Arab countries are estimated to have $120bn held abroad, and businessmen from the poor countries, excluding long-term emigrants, are thought to hold at least $50bn.

In the last 18 months there has been some return flow of capital to Saudi Arabia as that country has moved out of recession, but it is not expected that there will be a wholesale return of capital to the Middle East until the process of democratisation has gone much further.

Further articles in this series will look at Jordan, Morocco, Tunisia, Egypt and Algeria.

India to draw up full budget

MR Madhu Dandavate, India's Finance Minister, has dropped his plan to present an interim budget to Parliament next month and has decided instead to prepare a full budget which he will unveil on March 20, three weeks after it should normally have been ready, K.K. Sharma reports from New Delhi. One reason for a full budget is that exercises in the Finance Ministry have shown that the budgetary deficit has far exceeded estimates and a full year's effort to rectify the situation is needed.

The ministry said the deficit reached Rs118bn (£4.2bn) in 1989, far exceeding the Rs86bn of the previous year. Current trends show that the deficit is running at a "disquieting" level and the financial year ending March 1990 will probably leave a much higher deficit than the Rs73bn projected.

Strike hits Ford at Mexican plant

By Richard Johns in Mexico City

FORD Motor Company of Mexico has suffered a production loss of more than 500 cars as a result of an eight-day stoppage at its Cuautitlan plant. The interruption results from a bitter inter-union dispute and the factory's occupation by dissident workers.

The company will seek an injunction from the Federal Committee of Conciliation and Arbitration on January 26 allowing it to terminate its contractual arrangements with the labour force. It indicated that it will re-employ loyalists.

The multinational finds itself caught in a difficult position; but it clearly favours the official union leadership and the discipline which, in the past, it has generally been able to assert.

Like a schism in the teachers' union and divisions in other syndicates, the affair has placed a question mark over the ability of the ruling Institutional Revolutionary Party to control the grass-roots of the labour movement.

Mr Fidel Velasquez, veteran boss of the Confederation of Mexican Workers (CTM), the country's largest labour grouping with 5m members, called on Monday for the eviction by force of dissidents occupying the plant, 20 miles north of Mexico City.

With the neighbouring La Villa facility, it employs 3,800 workers. It produces for the local market, unlike Ford's plant at Hermosilla which produces the Topaz for sale in the US. The company is spending $300m on the Hermosilla plant to expand capacity by 25 per cent to 165,000 1991 Mercury Tracer cars a year and provide 750 new jobs.

Four hundred Ford workers demonstrated outside the CTM headquarters as Mr Velasquez discussed their demand for the resignation of Mr Hector Uriate, head of Ford's national union committee. The rebels want Mr Uriate removed after charges from his opponents that he has embezzled union funds, conspired with Ford to increase working hours and reduce earnings, and sought the dismissal of dissenters.

Argentina plans energy shake-up

By Andrew Marshall

ARGENTINA is to merge state-run energy companies into one group and plans to sell off companies managed by the armed forces in an effort to reduce the budget deficit, Mr Antonio Gonzalez, the Economy Minister, said yesterday.

Mr Gonzalez also announced that Argentina is set to receive $3bn over 10 years from the World Bank and the Inter-American Development Bank to aid development and assist the restructuring of the country's financial system.

Both moves are part of attempts by the Government of President Carlos Menem to reshape the country's ailing state-dominated economy in the face of rampant inflation and a huge fiscal deficit.

The new Federal Fuel Company will merge the state oil company Yacimientos Petroliferos Fiscales (YPF), the fourth biggest public company in Latin America; the state gas company, the 14th largest; and the state coal and hydroelectric companies, Mr Gonzalez said. It is to be set up within 60 days.

He also announced that $80m will be disbursed by the World Bank this month to Argentina's energy sector.

A recent Public Works Ministry report said the energy companies had a combined 1989 operating deficit of $700m to $1bn. It was not immediately clear how the merger of the companies will assist in reducing their deficits but it is almost certainly a precursor to selling them off.

President Menem is committed to widespread privatisation, covering all government enterprises except those essential to national security. Significantly, there was no mention of plans to integrate Argentina's nuclear generating capacity into the new company.

Mr Gonzalez also announced the impending sale of several large petrochemical companies managed by the armed forces, and a factory that repairs ocean-going ships. Several government agencies will be pared down, all new construction banned, and no new property acquired.

In addition to the reforms of the energy sector, Mr Gonzalez said that Argentina hoped to receive $3bn from the World Bank over 10 years to restructure Argentina's inefficient banking system.

The money, to be made available in three phases, would be channelled to both the public and private sectors by the provincial banks, Mr Gonzalez added.

The Government has already taken steps this year to deal with spiralling inflation, which reached 40 per cent in December, the consequent rise in interest rates, which had risen to 600 per cent a month, and the collapse in the value of the austral. On January 1, the Government unilaterally converted all 7-day deposits – approximately half of the banks' deposit base – into 10-year bonds, shoring up a banking system on the verge of collapse.

Reduction in the fiscal deficit was the next logical step. But it remains to be seen how the moves are taken by Argentina's powerful unions, a key power base for the ruling Peronist party, and by hard-pressed Argentine consumers.

Argentina had three stabilisation plans last year. The economy's collapse and the consequent rioting forced the precipitate exit from office of former President Raúl Alfonsín. But President Menem is remaining sanguine, in public at least. On Monday he said the country's economy was on the right path and that the upsurge in inflation in December had been expected.

"I had said the first three months [of government] would be calm and that then things would start to happen. . . but it has been better than expected," he added.

Peru's premier shows willingness to improve relations with IMF

By Sally Bowen in Lima

A TECHNICAL mission from the International Monetary Fund is in Lima to assess the crisis-ridden Peruvian economy and to attempt to repair strained relations.

The mission, which arrived on January 12, is the first of its kind for over 18 months. It was intended to comprise seven experts, accompanied by two observers from the World Bank, and was due to stay for three weeks. But at the last minute the team was cut to three and the stay to one week.

The talks were characterised by one official close to the mission as "purely political, a useful face-saver for both sides". Since taking office in 1985, President Alan Garcia has consistently criticised IMF policies as insensitive and harmful to Latin American debtors.

But with an eye to a possible return to power in 1995, he now appears to believe he can help himself by demonstrating his willingness to co-operate and without any suggestion of a climb-down. The team's presence will also help obviate the embarrassing necessity for the IMF of moving to expel Peru from the Fund in February – in any case an unlikely course with general elections scheduled for April 9.

The mission follows the preliminary agreement reached between Mr Michel Camdessus, the IMF managing director, and Mr Abel Salinas, the Peruvian debt negotiator, six weeks ago. Mr Salinas, a former Finance Minister, charged by President Garcia with improving relations with the IMF, announced in late November that the Fund had adopted a more flexible position on Peruvian arrears.

According to Peruvian government officials, the IMF agreed that any future economic adjustment measures should be based on growth in production and employment, and debt repayments should reflect Peru's real capacity to pay. In return, President Garcia would recommence payments halted unilaterally by Peru in December 1985, a course which led to Peru being declared ineligible for further loans in August 1986. The country's foreign debt amounts to around $18bn, with some $950m owing to the IMF, $650m to the World Bank and $200m to the InterAmerican Development Bank.

Peru made its first arrears payment of $42.3m to the IMF in mid-December, according to the central bank, and will pay another $35m over the next three months. The payment contributed to a worrying depletion of Peru's disposable international reserves, which stood at around $500m at the end of November 1989 but were thought by a source close to the central bank to be as low as $170m when December ended.

With less than three months before general elections, the economy has become a major issue. The Peruvian Government is beset by record inflation levels which topped 2,775 per cent in 1989 and reached 33.8 per cent in December. GDP fell 12 per cent in 1989, despite a slight end-of-year recovery, while revenue from taxes has slumped to around 4 per cent of GDP.

Dole advocates US foreign aid shift to new democracies

By Peter Riddell, US Editor, in Washington

A SHIFT in US foreign aid spending away from traditional recipients such as Israel and Egypt to emerging democracies in Eastern Europe and Panama has been urged by Senator Robert Dole, the Republican Minority leader.

Dole: critic of Israel

In an article in yesterday's New York Times, Senator Dole argues that a 5 per cent cut in US aid to the big five "earmarked" countries – Israel, Egypt, the Philippines, Turkey and Pakistan – would provide $330m. These countries receive more than two-thirds of US foreign aid.

This shift would, he says, be "enough to respond to the needs of the new democracies such as Poland, Hungary, Panama and countless needy countries that under current allocations will receive not one penny of American aid".

Senator Dole's proposal is certain to stir controversy since he has been an outspoken critic of Israel for its actions leading up to last August's hostage crisis and its attitude to Middle East peace talks. This is the first time he has suggested cutting aid to Israel and his plan will be fiercely resisted by the vocal pro-Israel lobby.

The senator has been prominent in urging greater assistance to Poland and other East European countries, notably in pressing for emergency food aid, which incidentally benefits his Kansas wheat-producing constituents.

None the less, his call for a reallocation of aid reflects the growing debate about how much the US can commit to aid for Eastern Europe as well as Panama. This concern has been underlined by last week's Japanese announcement of a much larger aid package for Poland and Hungary, at $1bn over three years, than the expanded US package approved by Congress.

Budgetary constraints have already led to a cut in the overall foreign aid budget, both in cash and real terms, and with so large a proportion committed to the five earmarked countries there is little left for other, new countries. Moreover, the decisions on Poland and Hungary were taken before the political changes in Czechoslovakia and Romania.

Even before Senator Dole's call there was talk in the Bush Administration of transferring some money from earmarked accounts (with Israel and Egypt exempt to minimise controversy) to these new needs.

Senator Dole stresses that he is not suggesting any abandonment of long-term US friends. Instead he suggests a reallocation, questioning whether "it makes sense, at this historic moment, to provide these countries practically all of our aid at the cost of foreclosing dramatically promising new aid initiatives in Eastern Europe or other important countries?"

Acknowledging the likely protests, the senator asks: "Can't we convince our friends who would 'lose' only a tiny amount of their aid how much it is in their interest, too, to help insure against the failure of new democracies and free-market economies? Can't those pressure groups that have turned some of our foreign aid programmes virtually into entitlement programmes realise that making some minor adjustments in aid allocations can simultaneously serve the countries of their special interest, and serve America?"

US switches aid from Jamaica

By Canute James in Kingston

JAMAICA is to lose $25m in foreign aid promised by the US to fight narcotics production and trafficking on the island.

Mr Michael Manley, Jamaica's Prime Minister, said the US Government would use the funds instead to support economic changes in Poland.

Criticising the US decision, Mr Manley said that while he was happy for the people of Poland, Jamaica needed all assistance to fight narcotics traffickers.

"This news from the United States is sad indeed," The Prime Minister said.

He reported that the loss in foreign aid had come in a year in which the island would have to pay the International Monetary Fund and the World Bank $214m more than the country will receive from them.

Jamaica's foreign debt obligations this year will cost $661m, the Prime Minister said. Jamaica's foreign debt is $4.5bn.

Collor's economic measures take shape

By John Barham in São Paulo

ADVISERS to Mr Fernando Collor de Mello, Brazil's President-elect, have presented policy options to combat inflation and restore economic stability which are expected to form the basis for the new Government's economic policies.

Mr Collor has accepted the plans and this is likely to increase the influence of Ms Zelia Maria Cardoso de Mello, 38, his chief economic adviser. This has increased speculation that she will be the next Finance Minister. Mr Collor, who takes office on March 15, has named only one cabinet member so far.

Ms Cardoso's strategy aims to reduce monthly inflation to 5 per cent by June without plunging Brazil into recession – an objective considered virtually impossible by independent economists. Inflation this month may exceed 50 per cent. Mr Carlos Langoni, a former central bank president, said: "Collor must begin to show results in combating inflation within the four months of his government."

None the less, Mr Langoni and other leading economists say Ms Cardoso's policy suggestions are generally sound, although they could lead to recession.

However, Ms Cardoso said on Monday after a four-hour meeting with Mr Collor: "There are three [policy] restrictions. The first is that there can be no recession. The second, that real wages must not be reduced and third, the policies must be coherent with the election programme."

Mr Collor has said he plans to capitalise on his popularity to rush a weighty package of drastic economic legislation through Congress in the first days of his five-year term. Government overspending is widely considered the root of Brazil's inflation. Ms Cardoso would wipe out the government budget deficit within two years by severely cutting subsidies and tax reliefs, raising taxes and increasing public sector prices.

Simultaneously, the plan recommends dismantling Brazil's pervasive indexation system and replacing it with a new prices and incomes policy, to be negotiated with unions and employers.

The transition team believes that disindexation will avert a recession. To the relief of the business establishment, the Cardoso plan rules out a price freeze. Brazil has undergone three abortive price freezes since 1986.

The Government's growing local currency debt – of which an estimated $55bn is owed to the public – will be brought under control as inflation subsides and markets, reassured by the new Government's determination to cut spending, accept lower interest rates.

The discredited Sarney administration is reduced to financing the debt daily at real interest rates that sometimes exceed 10 per cent per month.

Finally, the plan recommends a major privatisation policy, allowing the participation of foreign investors.

Scientists agree on rainforests

By Rachel Johnson

A STRATEGY to control the burning of tropical rainforests has been proposed for presentation at the next International Conference on the Environment in 1992.

Scientists at a tropical forest conference in Brazil said that the conversion, or burning, of forests contributed about a quarter of the "greenhouse gases" responsible for global warming. Deforestation is believed to inject over 2bn metric tons of carbon into the atmosphere each year.

The conference – which was closed to the press – was hosted in São Paulo by the Brazilian and US governments and organised by the Intergovernmental Panel on Climate Change.

Delegates from the tropical forest countries and the main industrialised nations vigorously endorsed a European Community proposal for a World Forest Conservation Protocol. This would be likely to include measures to use, reforest, plan and protect the tropical forest, as well as international trade deals and financial assistance to the tropical countries.

The protocol is to be negotiated as a crucial adjunct to the Global Climate Convention, which is now under discussion.

However, delegates from the tropical forest countries and especially the host country, Brazil – which possesses about 40 per cent of the world's remaining forests – were firmly of the view that an international strategy on forest conservation should be accompanied by equally strenuous action on fossil fuel use.

The closing statement said: "The group recognised that the conservation of tropical forests was of crucial importance for global climatic stability."

But delegates argued that the developed world should simultaneously commit itself to the reduction of "greenhouse gas" emissions. Industrial emissions are thought to be 50 per cent responsible for the greenhouse effect of the 1980s, the trapping of the sun's heat near the earth's surface.

Delegates said that developing countries were in no position to solve, unaided, a global problem that was largely the making of the industrialised world.

Fault puts AT&T on the line

Roderick Oram gets through to embarrassed US phone employees

Long-distance telephone services in the US returned to normal yesterday after American Telephone and Telegraph managed to override a software glitch that wreaked havoc with its network for more than nine hours on Monday, writes Roderick Oram in Bedminster, New Jersey.

"It was certainly the most far-reaching service problem we've ever experienced," said Mr Robert Allen, AT&T's chairman. At its peak, more than 50 per cent of long-distance calls placed on AT&T's network failed to connect.

Only calls on the public switched network were affected. The US Government and companies using private dedicated lines leased from AT&T operated normally. Service was unaffected on the networks of its two maincompetitors, MCI Communications and US Sprint.

IT sounds like a spoof horror film: "The Day The Phones Died". But it was a nightmare come true on Monday afternoon for engineers at American Telephone and Telegraph, who consider they run the pre-eminent telephone system in the world.

At about 2.30pm the huge video maps of the US, covering a wall at the command centre of AT&T's global phone network, started to turn from a reassuring green to an alarming red. "It got pretty colourful," said Mr Jim Nelson, a district manager at the centre housed in an AT&T complex near Bedminster, 50 miles west of New York City.

Normally, red means a mere five calls were failing to connect over a five-minute period in any given section of the network, which carries up to 100m calls a day.

Scanning their computer terminals, Mr Nelson and his colleagues were shocked to realise they had an unprecedented crisis on their hands. Tens of thousands of customers were failing to get through on the world's most extensive and sophisticated phone network.

Over the following hours some 50 per cent of calls failed, severely denting AT&T's reputation and discrediting the pitch it makes to the public. Only AT&T – not upstart competitors like MCI Communications and US Sprint – can offer quality service, its advertisements boasts.

AT&T has limited financial liability for business its customers lost on Monday when their phones fell silent, said Mr Robert Allen, AT&T's chairman, at a press conference in the command centre. But "we feel it is our own moral obligation and in the long-term interests of our customers" to make some amends.

The bill might not be huge and, at least publicly, Sprint and MCI were more diplomatic than usual yesterday about AT&T. After all, people who live by glass fibre optic cables shouldn't throw stones. They all use the same signaling system.

But, behind the scenes, in countless sales meetings with potential customers, they will be sure to capitalise on the embarrassing calamity. Together they have clawed 20 per cent of the US long-distance market away from AT&T over the past six years and are making inroads daily into the 70 per cent AT&T has left.

AT&T tried yesterday to reassure customers that the failure of its public switched network was a once-in-a-lifetime event. It happened only because of a software bug in a new, more sophisticated control system the company was introducing to make the system even more secure.

But that one little glitch caused alarm and severely tested hundreds of the best telecommunications experts around the country for more than eight hours.

As the scale of the crisis became apparent, senior executives of AT&T raced to the command centre to lend a hand. Normally a dimly lit and almost sleepy place, the room was soon a-buzz with "tense but controlled" activity, one participant said.

Computer and communications experts were brought together in teams in nearby "green rooms" to brainstorm a solution. Vast volumes of data from some 100 of the network's computers around the country were also fed to other experts at facilities in New Jersey, Illinois, and Ohio of Bell Laboratories, AT&T's research arm.

"It got kind of frustrating for us here," said Mr Nelson. "We just had to step back from the problem and let those teams work on it."

By mid-evening, they came up with some tentative suggestions for overriding the rogue software. Mr Nelson and his colleagues tested them in one small segment, found they helped, so applied them to the national network. By about 10pm the system started to stabilise.

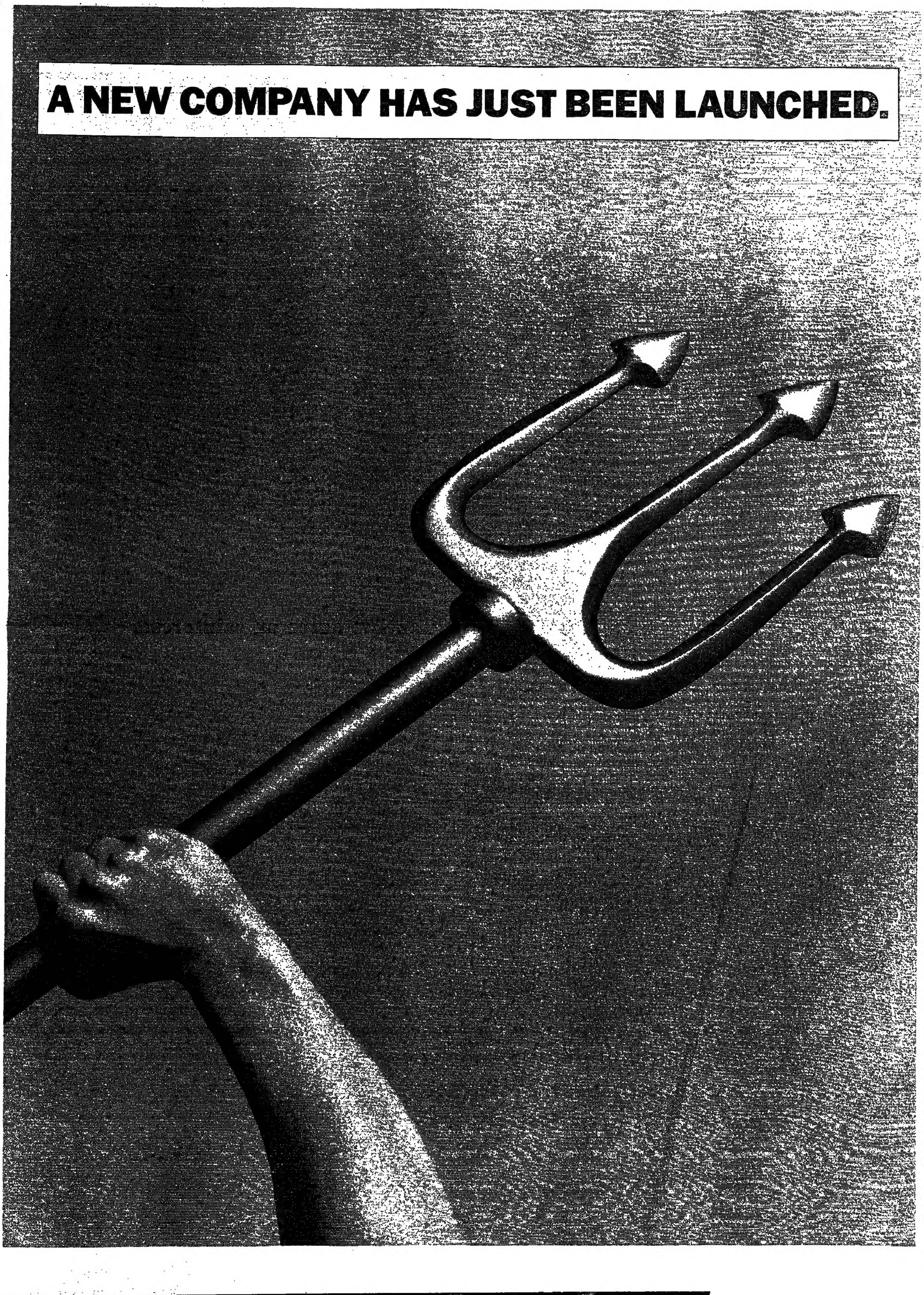
The teams and control centre staff worked through the night to prepare the network for the regular morning onslaught of calls. Having arrived for work at 7.30am on Monday, Mr Nelson was still at his post at noon yesterday.

"We're very sure that the software changes we've made have addressed the problem," he said. But until engineers have managed to recreate the catastrophic failure in their laboratories, they will not be satisfied they have permanently fixed the problem, he added.

Mr Allen was quick to point out that the bug was in a programme written in one of AT&T's in-house computer languages and not the Unix operating system it is trying to establish as a common international standard.

He was also willing to admit AT&T had failed. "We didn't live up to our standards of quality. . . that's not acceptable to us." But the public's judgment will be harsher, as many AT&T employees know.

Later yesterday, after the phone network was back to normal, some employees gathered round television screens for re-runs of Mr Allen's press conference. With black humour, one suggested what Mr Allen should have said: "January 15, 1990. Our day of infamy."


A NEW COMPANY HAS JUST BEEN LAUNCHED.

UK NEWS

Smith sues Citicorp arm over loss

By Richard Waters

SMITH New Court, the securities firm, yesterday launched an unusual legal action against a subsidiary of Citicorp over losses it faces on a holding of shares in Ferranti International of up to £13.4m

The action alleges misrepresentation over Smith's purchase of a stake of 28m Ferranti shares it bought from Scrimgeour Vickers (Asset Management), a Citicorp subsidiary, last July. This was less than two months before Ferranti announced it had uncovered evidence of a massive fraud in the group, sending its share price plunging.

The block of shares sold by Scrimgeour had been owned by Mr James Guerin, the former head of International Signals, the Ferranti subsidiary where the alleged fraud occurred. Smith's writ, issued and served yesterday, alleges misrepresentation by Scrimgeour over the sale. Smith refused to explain how it believes it was misled, but said it was not related to the fact that the shares had been owned by Mr Guerin.

Smith bought the shares, at 82.5p a share, on 21 July. Since then they have plummeted, closing yesterday at 34.5p. The firm refused to say whether it still holds the stake, but is believed to be sitting on the bulk of the holding.

Assuming a holding of 28m shares, it would be showing a paper loss of £13.4m by last night. A provision to reflect losses on the shares has already all but wiped out Smith's pre-tax profits in the first half of this year, prompting it to pass its dividend to shareholders for the second period in succession.

Smith's writ seeks for the oral agreement under which it bought the shares to be struck out, for the return of the purchase price (£23.1m) and damages for misrepresentation.

Citicorp, which yesterday faced up to other problems as it retreated from the UK equities market, issued a statement saying: "We believe this claim to be without merit and the action will be fully defended."

It said that the 28m shares had been part of a stake of 30m Ferranti shares used by Parent Industries, Mr Guerin's US-based private company, as security for a loan. The loan was declared in default at the beginning of June last year, and the shares were subsequently sold by the bank to repay the borrowing.

Insecurity dogs securities business

David Lascelles and Richard Waters examine the loss of City jobs

YESTERDAY was another black day in the City of London as almost 300 jobs disappeared in the hard-pressed equities business. It was also an unpleasant reminder that the problems of over-capacity which have dogged the market for more than two years have still not been resolved.

"This industry is still structurally unprofitable", said Mr John McFarlane, the Citicorp executive who had the unenviable job of informing 215 Citicorp Scrimgeour Vickers employees that they were either being transferred or made redundant. Some 79 people were also made redundant yesterday in the UK equities arm of County NatWest, the investment bank owned by National Westminster.

Citicorp's announcement did not come as a major surprise. Even though Scrimgeours went through a major cost-cutting exercise last year and cut back its business to concentrate on the most profitable parts, the company never managed to shake off rumours of imminent closure. This affected staff morale and drained it of its best people.

Ironically, CSV managed to halve its losses last year to some £35m before tax. But Mr McFarlane said that there was simply no prospect in the foreseeable future of the firm making a decent profit.

He blamed two factors. One was the continued low volume of dealing in UK equities. Ever since the stock market crash of 1987, the wariness of investors has damped down activity and made it virtually impossible for any but the very largest equity houses to earn their keep.

- 1984: Citicorp to buy Scrimgeour Kemp Gee and Vickers da Costa for reputed £140m.
- 1985: Merger forms Citicorp Scrimgeour Vickers (CSV).
- 1987: Citicorp injects further $40m into CSV
- 1988: Mounting losses. Citicorp pulls out of gilt-edged market. Far eastern securities business reduced.
- 1989: CSV reduces market making to key stocks.
- 1990: CSV core equity business closed. Scrimgeour Vickers name expunged.

The second was the doggedness with which other houses were staying in the business. Apart from the withdrawal of Morgan Grenfell a year ago, the trading capacity of the UK equities market remained as large as ever.

CSV's departure is unlikely to make much of a dent in the surplus either, since its market share was too small to have much effect on the competitive environment.

Estimates vary, but most securities firms believe that as much as a third of the present capacity would have to be shed before supply comes into better line with demand. If so, that implies that at least one more of the market's six major players will have to beat a retreat.

Despite this, firms were sounding doggedly resolved yesterday, with the likes of Kleinwort Benson and UBS Phillips & Drew saying that they had increased their staff numbers during the past year and expected to increase further in the coming 12 months.

However, those who lost their jobs yesterday face a bleaker future than the 450 laid off by Morgan Grenfell a year ago. According to Mr Howard Coates, head of equities at BZW: "Most Morgan Grenfell people were re-employed straight away, quite a few of them on higher pay. This time it will be much tougher to get jobs."

News yesterday that County NatWest has reduced staff numbers in its UK equities division from 660 to about 580 also does little to change the overall competitive position in the equity market. County appears to have learned at least one lesson from Citicorp: that slashing costs and trying to find a position as a medium-sized, specialist broker just does not work.

Citicorp's withdrawal from the equities market is not total. It will continue to deal in the stocks of small companies as part of its overall corporate finance service. It will also try and develop a cross-border European share dealing business for international investors. But yesterday's move marks the latest of a string of reversals for the US bank in its efforts to break into the international securities business.

Citicorp's acquisition in 1985 of two stockbrokers, Vickers da Costa and Scrimgeour Kemp Gee, was one of their more ambitious moves in preparation for financial deregulation in the City of London. Mr John Reed, Citicorp chairman, described CSV as valuable experience for the day when US banking law reform would allow Citicorp to deal in securities in its home market.

But over time, Citicorp has pulled out of the UK gilts market, pared back Vickers' once-flourishing Far Eastern equities business, and now shut down the core of its UK operations.

This will be seen as further evidence of the incompatibility of banks and the securities business. The majority of the banks – British and foreign – which bought stockbrokers during deregulation have suffered large losses or been forced to shut the operations. Of the Americans, only Security Pacific retains any substantial operations in the form of Hoare Govett, but negotiations are afoot to sell part of the business back to the management and employees.

Tories to seek delay on ivory ban for HK

By Philip Stephens

THE Government plans to seek a temporary exemption for Hong Kong from the international convention imposing a worldwide ban on the trade in ivory in a move which may seriously undercut the effectiveness of the convention.

The decision, taken by Mrs Margaret Thatcher, the Prime Minister, after an internal dispute between the Department of the Environment and the Foreign Office on the issue, reflects her concern to maintain commercial confidence in Hong Kong.

It is designed to allow the colony to dispose of a stockpile of nearly 700 tons of ivory, worth an estimated £85m, built up before the convention was signed last year. Hong Kong is one of the world's largest producers of jewellery and other ornaments made from ivory.

Mr Chris Patten, the Environment Secretary, is understood to have opposed the move on the grounds that it would threaten the effectiveness of the trade ban, agreed by the Convention on International Trade in Endangered Species last October.

The slaughter of elephants by ivory poachers in Africa persuaded the conference tc upgrade the elephant to the status of one of the world's most endangered species. Britain backed the upgrading, but abstained in a separate vote which banned trade in existing ivory stocks.

Mr Patten is said to be concerned that an exemption for Hong Kong would undermine Britain's international reputation on environmental issues.

Yesterday 90 Labour MPs signed a House of Commons motion urging the Government not to seek an exemption. It says the colony's stocks represent 100,000 elephants, and it calls on the Government to destroy its stockpile.

The Foreign Office, however, has argued that an immediate ban on the trade would add to the economic problems facing Hong Kong as a result of the collapse in confidence which followed the massacre in Tiananmen Square last June.

Power companies seek higher rates of return in private sector

By David Thomas and Maurice Samuelson

THE TWO generating companies which will be formed out of the privatisation of the electricity supply industry in England and Wales are pressing the Government to be allowed to be make much higher profits in their early years in the private sector.

Some in the generating companies fear that they could be difficult to sell at a reasonable price unless the Government allows them to make higher rates of return.

The dispute between the generating companies and the Government has surfaced during the final round of negotiations over the pricing and profit policies which will govern the industry in its first year in the private sector.

Mr John Wakeham, Energy Secretary, is presiding over the talks in the run-up to the formal launch of the new electricity companies on April 1, known as vesting day.

The present expectation is that the twelve area distribution companies will be sold in the autumn and the two generating companies, National Power and PowerGen, would be sold in the following spring.

On the latest data available to it, PowerGen estimates that in its first year it might make profits of about £100m on sales of about £2.5bn. National Power, which is roughly two-thirds bigger than PowerGen, is understood to be expecting similar profit margins.

The generating companies are arguing strongly to be allowed to make higher profits. They say the generating side of the industry will bear higher risks than the distribution side because it will be subject to greater competition.

In the first year, higher profit margins for the generating companies would have to be made by scaling back the rate at which the distribution companies could make profits.

This is because the Government is planning to keep price rises in the industry down to the rate of inflation, at least for domestic customers.

The National Grid Company – which will run the integrated power distribution network and is to be owned jointly by the 12 distribution companies - is expecting to be allowed to make a return on assets of about 6.75 per cent after privatisation, more than twice the electricity industry's rate in the public sector.

The grid company's profits will be important for the distribution companies because it will form about a third of their assets.

Senior people in the generating companies say this rate of return is too high in view of the fact that the grid company is a complete monopoly. However, the grid company argues that it will need at least such a rate of return in order to raise capital to finance its future developments.

Plea made against ambulance strikes

By Fiona Thompson, Labour Staff

MR Roger Poole, the chief trade union negotiator in the long-running ambulance dispute, yesterday pleaded with ambulance staff not to conduct strike ballots as more crews in the south-east came out on unofficial action.

Mr Poole said he had spoken to staff in a number of areas saying "under no circumstances" should they carry out strike ballots. But he said if members wanted to, the union leaders could not stop them. "We are not generals who dictate to our members."

In the House of Commons, Mrs Margaret Thatcher, the Prime Minister, again said that the pay offer – of 9 per cent over 18 months – was "reasonable and good".

Crews at five stations in Essex have said they can not respond to any calls, even from members of the public who arrive at stations, because management has told them insurance cover has been withdrawn from staff and vehicles.

A strike ballot of 380 ambulance workers at 15 stations in north-west London was being counted last night and Mr Eric Roberts, branch secretary, said he had no doubt the result would be to come out. He said the public thought they were on strike anyway.

However, he said staff would continue to remain at the station and would answer direct calls from the public.

A meeting yesterday of shop stewards of ambulance stations in north-east London voted to recommend that a meeting of all of London's stewards next week should call for a strike ballot.

Mr Tom Crosby, London's chief ambulance officer, said the service would cope with emergencies despite the threat of a strike. But he added that if the army and police had to handle calls being made to ambulance stations, further pressure on resources could lead to delays at peak periods.

Office sites are put on the market

By Richard Evans and Paul Cheeseright

THAMES WATER yesterday announced its first big property disposals since it was privatised late last year. Two office sites in the London area are to be closed and 865 staff relocated. No significant job losses will be involved.

The two sites, The Grange at Waltham Cross and the New River Head offices in Islington, north London, will close in July 1990 and January 1992 respectively as part of a rationalisation of office property.

They come on to the market at a difficult time. Returns on property have been declining and high interest costs have deterred development.

On the basis of their existing use, the Islington site might have a value of about £21m and that at Waltham Cross of about £3.5m. Sold as sites for redevelopment, the value of the properties is more difficult to estimate because of the present lack of demand.


ALL OVER BRITAIN.

Banks in appeal against council rate swaps ruling

By Deborah Hargreaves

FIVE BANKS are appealing against a High Court ruling that interest rate swaps by the Hammersmith and Fulham local authority were unlawful.

The banks yesterday asked the Appeal Court to overturn the November ruling that the use of swap instruments or transactions were beyond the powers of any local authority.

Mr Gordon Pollock is representing four of the banks bringing the appeal: Midland Bank, Security Pacific National Bank, Chemical Bank and Mitsubishi Finance International. Barclays Bank is also bringing an appeal.

Mr Pollock told the court that there was a body of opinion which held that most interest rate swaps were legitimate tools of debt management, if used prudently.

He asked the judges to stand back from the particular case of the Hammersmith and Fulham Council and to focus on whether any local authority could use these instruments for hedging purposes.

Local authorities had become involved in the interest rate swap market at an early stage in its development – at the beginning of the 1980s – when they recognised the usefulness of swap instruments, Mr Pollock told the court.

Since 1982, between 70 and 90 local authorities had engaged in the burgeoning interest rate swaps market, Mr Pollock said.

The international market has now reached a level of some $2,000bn.

In the local authorities' league table of average borrowing costs, Hammersmith and Fulham had prided itself on having one of the lowest cost rates.

At the same time, Hammersmith and Fulham threw itself into the market "with a degree of enthusiasm in marked contrast to the way other local authorities approached the market," Mr Pollock said.

Hammersmith and Fulham had leapt with "cynical opportunism" on to the bandwagon of legal action taken by the local authority regulator, the Audit Commission, Mr Pollock said.

"Because this allowed them to retain in their pocket profits which the transactions had hitherto brought them and reject payments called for."

This argument forms the crux of the banks' case in the appeal, since they stand to lose between £350m and £500m on their exposure to the local authorities' swap transactions if the initial ruling is upheld.

Government urged to give tax relief to rented sector

By James Buxton, Scottish Correspondent

THE GOVERNMENT was urged yesterday to provide tax relief for tenants as part of an effort to smooth the gaps between public-sector and private-sector rented housing, and between private-rented and owner-occupied housing.

The call comes from Quality Street, the company set up late in 1987 to provide private rented accommodation with financial backing from the Nationwide Anglia Building Society.

Quality Street, which is based in Glasgow but operates over the whole country, has already invested £75m in rented accommodation.

Mr Paul Mugnaioni, the chairman, said there were two serious problems:

- There was a "huge discontinuity" in rents between the public sector, currently about £25 per week, and the private sector, with the cheapest new unfurnished two-bedroom flat outside London being let at between £60 and £80 a week.
- Subsidies in the form of mortgage income tax relief and capital gains tax exemption discriminated against people who would prefer to rent.

IN BRIEF

Sharp rise expected in North Sea drilling

Oil drilling in the North Sea is expected to rise sharply this year, according to a survey of North Sea operators by Financial Times North Sea Letter. It says the rise will lead to a record level of activity in the UK sector. The survey of drilling plans indicates an increase of 24 per cent over 1989. The report believes the actual increase after delays may be closer to 18 per cent.

170 jobs cut

Royal Doulton, the Staffordshire china manufacturer, is to cut 170 production jobs at its Minton headquarters in Stoke-on-Trent. The company said the jobs were going as part of a rationalisation of its tableware casting operations. Order books remained strong and the workers affected would be offered employment at other company factories.

Welsh enhancement

The first phase of a £27.5m ($45.6m) complex intended to enhance the position of University College, Cardiff, as a centre of engineering studies was opened by Peter Walker, the Welsh Secretary.

The five-stage development, which will be completed by 1993, was described by Walker as "the most ambitious engineering complex to be launched in a British university since the 1960s."

BAe strike meeting

Union leaders disclosed yesterday that they met British Aerospace managers earlier this week in an attempt to negotiate a settlement to strikes over a shorter working week. The face-to-face talks were the first to be held between the two sides since the strikes began 11 weeks ago.

Recruitment drive

A drive to recruit members in the hotel, catering and leisure industries was launched yesterday by the TGWU general workers' union. The union hopes to take advantage of the increasing labour shortages in London and the south-east of England.

Radical plan urged for Ulster economy

By Our Belfast Correspondent

NORTHERN Ireland needs a radical new economic plan for the 1990s, according to a major report published yesterday.

The formulation of an economic strategy involving both the public and private sectors is recommended in the Review and Prospects for the Northern Ireland Economy, published by management consultants Coopers & Lybrand Deloitte.

The report, regarded as one of the most authoritative economic forecasts, predicts that in the short term 1990 could be a difficult year for the local economy, as economic growth slows throughout the UK. The continuation of high interest rates is likely to dampen further consumer spending and industrial investment. The number of unemployed in Northern Ireland is likely to rise by about 2,000, although output may increase slightly.

Looking forward and assuming no change in government policy, the number of jobs in Ulster should rise by 8,000 between now and the year 2000, according to the report.

The main employment growth sectors in Northern Ireland will be health care, leisure and business service.

The report says that manufacturing output should rise at a rate of 2.5 per cent a year, but employment in manufacturing will decline as a result of improved technology and rising productivity.

But the main message from the report is the call for radical new thinking on economic policy and the need for a co-ordinated plan to ensure the province attains its economic potential in the 1990s.

The Coopers' report says: "A continuation of existing policies will be insufficient to achieve a rate of economic growth which will allow the Northern Ireland economy to catch up with other regions of the UK."

Areas which need to be tackled include better training, improving quality and quantity in goods and services, developing the local tourist and leisure industry, evaluating economic changes in Europe and a campaign to encourage more talented young people to stay in the province.

The Northern Ireland Economy Review and Prospects, January, 1990, Coopers & Lybrand Deloitte, Fanum House, 108 Great Victoria Street, Belfast. £50.

One third of Ford UK could join pay strike

AT LEAST a third of Ford's UK workers are expected to be on strike today, some of them indefinitely, as the company meets union leaders over its offer of a 10.2 per cent pay increase in the first year of a two-year deal.

More than 250 workers at the company's research and development facility in Dunton, Essex, began strikes yesterday, joining colleagues in the Halewood car plant and Bridgend engine facility.

About 6,500 of the 11,000 workforce at Dagenham are among the Ford employees who voted to stage a 24-hour stoppage today. Today's talks have been called by Ford in an attempt to prevent the dispute escalating into an all-out strike.

- Journalists at the Daily Mail newspaper have voted in favour of industrial action in a second ballot over plans by Associated Newspapers to end recognition of the National Union of Journalists.

NUJ members voted a seven to one majority in favour of a work-to-rule and by a three to one majority for a series of 36-hour strikes.

Talks with management will continue today and the journalists will meet again on Friday.

W Midlands faces slump in short term, says report

By Richard Tomkins, Midlands Correspondent

A SHARP fall in confidence among West Midlands business people provides clear evidence that the West Midlands faces a short-term recession, said a report published yesterday.

The proportion of companies in the region expecting business conditions to worsen has shot up from 13 per cent to 64 per cent in the last six months, the twice-yearly West Midlands Business Survey says.

Most companies blame the poor business outlook on high interest rates and the proportion of companies planning to cut capital spending has risen from 17 per cent to 39 per cent.

The researchers – Wolverhampton Business School in association with Warwick Business School and accountants Price Waterhouse – interviewed 1,270 companies after the Chancellor's gloomy Autumn Statement last year.

They found that only 6 per cent of small companies expected to reduce their workforce, but 39 per cent of large companies were predicting a fall.

West Midlands Business Survey; Wolverhampton Business School, Wolverhampton Polytechnic, Compton Park, Compton Road West, Wolverhampton WV3 9DX; £75; summary free.

UK lift makers 'must be more competitive'

By Andrew Taylor, Construction Correspondent

THE UK lift and escalator manufacturing industry is in danger of losing out to US and Continental companies unless it improves its competitiveness, said Mr Peter Rogers, director of Stanhope Properties, one of Britain's biggest developers.

His warning yesterday accompanied a report published by the National Economic Development Council criticising the performance of lift manufacturers in the UK. Four of the five largest lift manufacturers in Britain are foreign owned. Express Lifts, a subsidiary of GEC, is the only large British manufacturer.

The report said Britain's trade balance in lifts had moved from a net surplus of £5m in 1976 to a deficit of £22m in 1988. It said British customers had expressed significant dissatisfaction about the quality and performance of home suppliers, and felt overseas competitors were more flexible and gave a better service.

"Customer-manufacturer relationships in the UK have not been good, dogged by disputes over contract conditions and performance," said the report.

One large customer interviewed by consultants EDU International for the report said: "The current problem seems to be an inability to perform in a timely fashion, to be able to compete within budget and the subsequent commissioning and installation."

Mr Rogers, a member of the National Economic Development construction industry sector group, is the Stanhope director responsible for the construction of the Broadgate office project, one of London's largest private sector developments.

He said three-quarters of the lifts at Broadgate had been provided by a West German company which had offered a better price and delivery than British-based lift manufacturers.

Mr Rogers said the council's report recognised that some of the problems faced by British-based lift manufacturers had been due to the failure of developers and architects to provide advance information on design requirements.

Mr Rogers said better communications were needed between developers, architects and lift manufacturers. Developers should use standard designs and components whenever possible to aid manufacturers. Efforts should also be made to standardise contracts to reduce bureaucracy, said Mr Rogers.

Mr David Fazakerley, director of National association of Lift Makers, said lift manufacturers had made big efforts to improve their performance during the past two years.

Man held in Belfast shooting inquiry

POLICE yesterday arrested a man they believe to be an accomplice of the three robbers shot dead by undercover soldiers in Belfast.

He was detained at a house in west Belfast and later questioned by detectives investigating the killings.

Police and troops had been searching for the man since the shootings outside the Falls Road bookmaker's shop on Saturday morning, according to sources close to the inquiry.

The man, in his 20s, was a close associate of Eddie Hale, one of the two men shot dead as they left the bookmaker's carrying weapons later found to be replicas.

Police were led to the man by a fourth mask found inside the betting shop.

Mr Peter Brooke, Northern Ireland Secretary, has refused demands for an independent inquiry into the shootings.

- Scotland Yard yesterday warned of a possible IRA mainland letter-bomb blitz after the discovery of two packages addressed to top Army officers.

The devices, sent through the post to the Army's South-East District Headquarters in Aldershot, Hants, were successfully defused.

The base was evacuated after the discovery of the first device in a plastic bag at 9.40am. A search uncovered a second package, later confirmed as a letter bomb.

According to army sources, both packages were addressed to individual officers.

Meanwhile, a leading member of the loyalist Ulster Defence Association appeared in court yesterday to face a charge brought by the team investigating leaks of confidential security documents.

Thomas Lyttle, 52, a clerk, of Sydney Street West in the Shankill area of Belfast, was accused at Belfast Magistrates' Court of withholding information between January and October 1988 which could have prevented an act of terrorism.

Lyttle's son Tommy, a 29-year-old barman who lives with his father, and Eric McKee, 32, of Belfast, each faced two charges of possessing documents which could be useful to terrorists planning to murder IRA suspects.

FT LAW REPORTS

Shipowners not held responsible for ship and cargo salvage reward

THE M VATAN

Queen's Bench Division (Admiralty court): Mr Justice Sheen: January 12 1990

SALVAGE OF ship and cargo is rewarded on a pro rata basis, shipowners and cargo-owners each paying in proportion to the value of their salved property; and the shipowner cannot be made liable for more than his pro rata share on the ground of poor prospect of payment by cargo-owners.

Mr Justice Sheen so held when dismissing an appeal by salvors, Selco Salvage Ltd from the decision of an appeal arbitrator, Mr Gerald Darling QC, that owners of the ship M Vatan, were liable pro rata for salvage to the ship and not for any additional sum.

HIS LORDSHIP said that M Vatan was an ultra-large crude carrier 370 metres in length and 64 metres in beam. She was probably the largest ship ever salved.

In July 1985 she was on charter to the National Iranian Tanker Co, engaged on a shuttle service between the oil loading terminal at Kharg Island and Sirri Island.

On July 9 she was struck by a missile which caused a fire.

The ship was almost fully laden with crude oil owned by the National Iranian Oil Co (NIOC).

The explosion blew a large hole in the ship's side. Burning oil flowed out of the ship.

The salvors' tug, Salveritas, was at anchor about 48 miles from the casualty. By agreement with the ship's master the salvors were engaged on "LOF" terms, the standard form of salvage agreement published by the Committee of Lloyd's. Under his signature the master noted "cargo owners are not authorising us to give instructions regarding cargo salvage."

The services rendered involved fire-fighting and 200 miles towage to anchorage off Sirri Island.

In salving the ship the salvors salved most of the cargo. The NIOC was well aware of the salvors' right to remuneration for services. Whether and on what terms it would honour its obligation was still to be resolved.

If LOF had been signed by the master on behalf of cargo-owners, the salvors would have had a lien on the cargo until security for their claim had been given. The salvors could have refused to render any salvage services until terms were agreed with NIOC.

But the salvors were content to render salvage services to ship and cargo on terms that only their claim against the ship-owners would be on LOF.

Thus the original arbitrator only assessed remuneration in respect of services to the ship.

It was well-established law that only the owners of property salved were chargeable with the salvage reward. Ship owners were not liable to pay for the salving of cargo. Cargo-owners were not liable to pay for the salving of the ship.

The principle, called the "pro rata rule," was based on considerations of public policy. The individual owner of each part of the salved property was liable to pay that proportion of the total salvage reward which the value of his property bore to the total value of all the property salved.

The original arbitrator correctly approached his task by deciding the amount which it would have been appropriate to award the salvors if he had been making an award against shipowners and cargo owners.

A fair reward on the basis that the value of the salved property was $77.29m would have been $4.75m.

On a pro rata basis the shipowners' liability would have been $221,350. The original arbitrator awarded $850,000.

The effect was that the owners of M Vatan were called on to pay not only the amount for which they were liable, but also an additional sum which, on general principles, was part of the NIOC's liability.

The appeal arbitrator held that the original arbitrator erred in principle in departing from the long established pro rata rule.

He decided the salvage reward for salving ship and cargo should have been $7.7m and that the shipowners were liable to pay 4.66 per cent, amounting to $350,000.

The salvors now moved to set aside the award of the appeal arbitrator.

In his reasons the original arbitrator said that where an arbitrator was called on to make an award only against a shipowner who had entered into a written agreement, he must make it solely on the basis of the shipowner's salved property; but, he said, fairness and equity demanded that account should be taken of the possibility of remuneration being obtained from the cargo-owners.

He found that the prospects of obtaining anything like NIOC's proportion of what he had held to be a fair base figure were distinctly poor.

He said: "In this exceptional case the proper approach is to make my award against the shipowners on the basis of their salved fund ... not on a 'pro rata' basis, but taking into account of the possibility of some recovery from cargo owners."

The fact that the salvors had not yet recovered a salvage reward from cargo-owners could not be a good reason for ordering shipowners to pay $500,000 more than their pro rata share of the proper reward.

In holding the balance between salvors and shipowners it could not be fair to both parties to impose on the shipowners the burden of making good part of the remuneration due from the NIOC.

Mr Brice for the salvors submitted that the circumstances were abnormal, and to follow the normal rule was unfair.

Why was it fair to penalise shipowners because salvors entered into an improvident bargain or because cargo-owners were so unscrupulous that they had not yet paid for services rendered to their property?

Mr Brice was unable to enunciate any principle which justified departure from the pro rata rule.

There was a departure from the general rule in *the Velox (1906) P 263* where awards were made not pro rata, but on the basis of the real danger from which the different properties were rescued.

The ship was said to be rescued from the danger of floating about, whereas the cargo was rescued from the danger of floating about until it became rotten and valueless.

That decision had not been overruled expressly, but it had been much criticised. It opened up avenues to intricate litigation and problems of great nicety which should be avoided as a matter of public policy. Its only relevance to the present case was that, if correctly decided, it showed there could be an exception to the general rule. It seemed preferable as a matter of policy that exposure to different dangers should not give rise to an exception.

Public policy required a court to reward salvors generously to encourage them to render assistance to ships and their cargoes in peril.

For true professional salvors the need to treat them generously was of special importance because they invested capital in providing powerful salvage vessels which could only earn their bread and butter when the occasion to render salvage services arose.

There was no principle of equity which entitled a court to order owners of salved property to pay more than their liability calculated pro rata, merely because salvors appeared to be having difficulty in recovering a salvage reward from owners of other salved property.

The award of the appeal arbitrator was correct in law. The motion was dismissed.

Courts of all developed nations recognised the justice of and gave effect to the principle that salvors were entitled to be rewarded for services which preserved property in peril at sea.

The problem in the present case arose because the NIOC had as yet failed to reward the salvors for salving nearly 400,000 tonnes of crude oil worth $73.35m.

The court could do no more than express its surprise and deplore the fact that a company, which appeared from its name to reflect the honour of the state, should do business in a manner so lacking in principle, honour and justice.

Even now it was not too late for the NIOC to discharge honourably its obligations and thereby avert a stigma which would not only blacken its reputation in the maritime community, but would also be likely to make professional salvors reluctant to come to its assistance on the next occasion when its oil threatened the marine environment.

For the salvors: Geoffrey Brice QC and Vasanti Selvaratnam (Elbone Mitchell).
For the shipowners: David Steel QC and Jeremy Russell (Clyde & Co, Guildford).

Rachel Davies
Barrister

TECHNOLOGY

A shock of foam to foil 'les voleurs'

Latter day highwaymen will get a shock if they take on a French postal van fitted with the latest security system.

STOP, an acronym for Securitisation du Transport des *Objets Postaux*, should deter the most determined of thieves. At the first sign of trouble, the van driver presses a button which starts a siren, triggers a radio alarm and stops the vehicle. Nothing exceptional about that – the surprise comes with the mass *of polyurethane foam that is* pumped into the back of the van to envelop the sacks of valuable objects.

The foam is the result of two resins, polyol and isocyanate, coming into contact with the air. This is the same basic formula as for polyurethane packaging, but has a different proportion for the resins and reaches a higher temperature to accelerate the process.

In this case, the ratio of the resins is roughly 50:50 and the temperature at the centre of the foam can reach 45 deg C, according to Louis Duparc, security chief for the French postal system. The foam forms quickly – seven cu m in 15 seconds and it goes on expanding – and solidifies almost immediately. It jams the doors and takes several hours to hack away from the loot.

Duparc estimates it would take up to four hours to clear the 28 cu m van that will start serving the Perigueux printing works, in the Perigord, by the end of March. This is where the idea was born, after thieves got away with FFr 50m (£5m) of postage stamps.

The system will be installed this year in several vans operating in the Marseilles and Paris areas, where the crime rate is high. Duparc says it will cost about FFr 200,000 to equip a 3.5 tonne van, costing between FFr 100,000 and FFr 120,000 to buy.

The system was developed by Apco, an Italian engineering company, and is marketed by *Pajet of Milan.* Experiments were carried out by Groupe 4 Securitas, a Belgian transport company, which will also use *the equipment this year.*

Barbara Casassus

A harvest of pharmaceuticals

Clive Cookson reports on ways of making drugs more compatible with patients

The biotechnology industry cut its teeth making pharmaceutical proteins with genetically engineered bacteria. But it is moving on to more sophisticated production systems, using mammalian cell cultures instead of micro-organisms.

Beyond that, researchers expect soon to be able to extract human proteins from the milk of "transgenic" farm animals and perhaps also from plants. In the long run, the cheapest way of producing some pharmaceuticals could be as an agricultural crop.

When the first bio-pharmaceutical companies started up in the late 1970s, scientists had only recently invented the "recombinant DNA" technology which makes it possible to transfer a *gene from one species to another. They* began working with the simplest and best understood system, the bacterium *E coli*, and quickly scaled up the process so that bacterial cultures could make large quantities of human protein. (The first genetically engineered drug was human insulin, originally developed by Genentech in the US and *launched* by Eli Lilley in 1982.)

But the products of genetically engineered bacteria are not always identical to the natural molecules in the human *body. There are differences* because bacteria can only make simple unadorned protein molecules, while human and other mammalian cells frequently add other chemical chains to the basic protein.

The most important modification, known as glycosylation, involves adding sugar chains to the protein. As a result, the shape and biological activity of bacterial "human protein" may not be the same as the real thing.

The clinical significance of these differences *is often far from clear – and* some heated disputes are brewing between advocates of the new mammalian cell production processes and *defenders of bacterial systems.* A good example is human growth hormone, for which there is currently a $340m-a-year world market to treat children whose pituitary glands do not secrete enough natural hormone to grow properly.

Aries-Serono, the Swiss pharmaceutical company, has just launched the first human growth hormone (hGH) produced from mammalian cell culture. It says that its product, Saizen, is more like the natural hormone than the hGH produced from genetically engineered *E coli* and so is less likely to prompt patients' immune systems to make unwanted antibodies.

Competitors, angered by Aries-Serono's aggressive marketing of Saizen, say its claimed advantages are at best theoretical. Clinical evidence so far shows that the latest bacterial hGH *stimulates growth as effectively as Saizen* and causes no more antibody production. Charles Brook, professor of paediatric endocrinology at the Middlesex Hospital, London, says: "The mammalian cell line gives no measurable advantage over the bacterial system."

Even so, Raymond Dwek, a biochemistry professor at Oxford University who has pioneered the study of glycosylation, warns that the use of non-glycosylated bacterial proteins may *have adverse long-term effects.*

There are many proteins, however, about which there is no doubt – they only work effectively in the human *body if they are glycosylated and therefore* they must be produced by mammalian cells. These include some of the biotechnology industry's most promising drugs, such as tissue plasminogen activator (tPA), which reduces blood clotting, and erythropoietin (EPO), which stimulates red blood cell growth.

The general view seems to be that any convenient mammalian cell line can be used to produce these glycoproteins. Cells used frequently come from Chinese hamster ovaries, baby hamster kidneys and mouse tumours.

But Dwek points out that no animal cells actually produce the same pattern of glycosylation as the cells making the proteins naturally in human beings. It remains to be seen how much the differences matter in clinical practice. "Many of these problems may become especially important during long-term repeated or sustained administration."

Most biopharmaceutical manufacturers fervently hope that the differences turn out to be unimportant, because their life will become very complicated if many new lines of genetically engineered cells – perhaps human cells – have to be created, tested and scaled up for production.

Celltech, the leading UK biotechnology company, has done a lot of the pioneering work on production from mammalian cell cultures. It makes EPO on contract for Ortho (part of the Johnson & Johnson group) and helped Aries-Serono *develop the manufacturing* process for hGH.

There are several alternative production methods, depending on the requirements of the particular cells. Some, including the hybridoma cells used to make antibodies, thrive if they are simply suspended in a liquid growth medium with essential nutrients (minerals, vitamins and amino acids) and a supply of air. For these, Celltech has developed the "airlift" system shown in the diagram; sterile air bubbles up through the fermenter, both stirring and oxygenating the liquid.

But many other cells will only grow if they are anchored to a physical support. One technique is to attach the cells to the inside of small hollow beads, which are then suspended inside an airlift fermenter.

Another method, used by *Celltech* to make EPO, involves "roller bottles". The liquid medium is put into plastic bottles, turned continuously by rollers, and cells grow on the inner surfaces.

Celltech is developing an automated sterile production system for roller bottles, in collaboration with The Technology Partnership. Scrupulous sterility is essential to keep out unwanted micro-organisms which would otherwise proliferate in the growth medium.

A fundamentally different approach is to use whole "transgenic" animals, instead of cell cultures, as living pharmaceutical factories. Several biotechnology companies aim to extract valuable human proteins, such as the blood-clotting agents Factor VIII and Factor IX, from the milk of genetically engineered sheep, goats, pigs or cows.

According to Ron James, managing *director of Pharmaceutical Proteins,* based in Edinburgh, the latest experiments with transgenic mice indicate that yields of human proteins in sheep's milk could be raised as high as one gram per litre. His company's flock of transgenic sheep is due to start producing commercial quantities of alpha-1-antitripsin – a treatment for certain lung diseases – next year, though drugs from transgenic animals are unlikely to receive full regulatory approval for another four years.

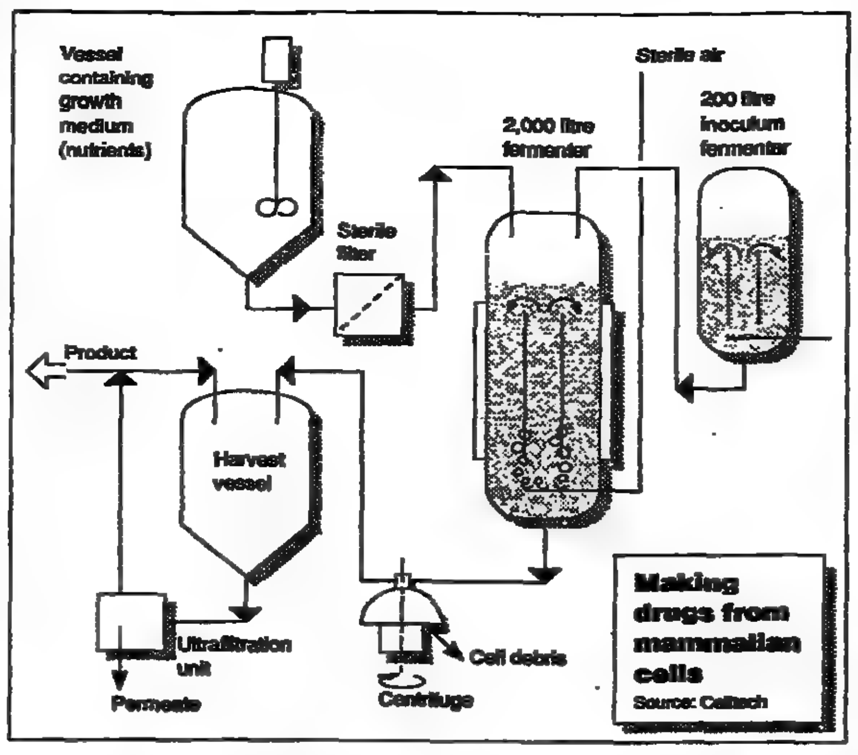
Enthusiasts such as James believe that transgenic techniques will supersede mammalian cell cultures during the 1990s as the standard way of making human proteins. Norman Carey, Celltech's director of scientific affairs, disagrees. "For the sort of proteins we're producing I don't see any specific advantages in using sheep rather than a fermenter. You end up with a liquid containing a lot of proteins from which you have to separate the one you want – and you're introducing a completely new set of variables."

However, Carey concedes that transgenic animals may turn out to be the best way of making some proteins, such as *Factor VIII*, which may be expressed particularly well in mammary glands.

A more distant possibility is to use transgenic plants. Scientists have found a reliable way of making human genes work in plants, using a microbe called *Agrobacterium* to transfer the DNA.

For example, a team at the Research Institute of Scripps Clinic in California recently reported making functional antibodies in genetically engineered tobacco plants. The antibodies accounted for more than 1 per cent of total leaf protein. Andrew Hiatt, leader of the Scripps team, says the plant cells seem to have assembled the antibody proteins in the correct shape, though the glycosylation pattern has not yet been fully analysed.

Carey believes that transgenic crops, such as sugar beet, may turn out to be the best source of human proteins required in large quantities, such as serum albumin for blood transfusions.



Making drugs from mammalian cells
Source: Celltech

Hotels nibble away at the fruits of automation

So you like green, not red, apples in the fruit bowl in the hotel bedroom and two, not one, rubber mats in the bathroom.

Green apples by special request and rubber mats by the bathful are some of the ways in which the Savoy, one of London's grandest hotels, maintains its reputation for personal service.

But for all its old world charm, *the Savoy is no* stranger to technological innovation. When it opened 100 years ago, it was the first all concrete public building and the first hotel lit by electricity.

Now it panders to the personal idiosyncracies of its guests with the help of an IBM System/36 computer, which it uses to store the personal likes and dislikes of 80,000 guests.

The system has proved reliable – *it has not given rubber* mats to the green apple muncher. Each guest can see the information, so there is no conflict with the Data Protection Act.

For security, the 200-bedroom hotel has installed an electronic Guestkey system, from GEC Projects. Peter Crome, manager of the Savoy, says this has virtually eliminated burglaries. Information is stored *on the key's magnetic* stripe.

Crome also foresees the installation of satellite receiving equipment for video conferencing between people in various parts of the world.

While improving service remains important at the luxury end of the market, more down-to-earth places are turning to technology to increase profitability. One of the conclusions of a report by management consultants Horwarth & Horwarth, for the International Hotel Association, is that "technology will provide many opportunities for hotels to improve efficiency and reduce costs."

The hotel industry *is similar* to the retail sector in that it handles small financial transactions in rapid succession. A *guest arrives*, checks in, has luggage delivered, uses the telephone and valet service, has a drink or eats in the dining *room, sends a facsimile*, buys a gift, and so on.

In small hotels much of paperwork associated with these actions is done manually yet the technology exists for it to be computerised and the accounts settled automatically.

One change likely to become more widespread is immediate on-line charging for all goods and services. The waiter with a pen and notepad *will become a* thing of the past, replaced by hand-held pads relaying the order to the kitchen and recording it on the bill.

The Hilton hotel, in London, is moving towards more efficient billing by installing a direct on-line link with four credit card companies. The Barclaycard PDQ 2 system, similar to the ones used at petrol stations, will verify a guest's card and *eliminate* the need for paper credit vouchers.

One area where hotels have fallen behind other sectors is in the use of advanced reservations systems, with hotels the most under-automated sector of the international travel industry. The report also identified baggage handling in hotels as inefficient.

On a more futuristic note, chambermaids and bell boys could eventually be *displaced* by electronic systems as robotics technology becomes viable for small businesses.

As a result of all these changes, the report says it will be more important for hotel managers to be computer literate than good at caring for guests. However, "hotels must have, in all instances, a manual back-up contingency plan should a system fail."

"Fawlty Towers" could take on a new meaning in the age of the computer literate manager faced with a broken down computer.

But there may well be a limit to the number of traditions that can be swept away by technology. "There is a degree to which you can go for technology, but you don't want to make it too complicated," says Crome.

It would be "quite possible to check in and out of a hotel without reference to any staff, *but this would not say much* about the art of innkeeping. Nobody would want to stay at a hotel that treated its guests that way."

Lynton McLain

TECHNOLOGY MARKET

MANAGEMENT

Product design

Racing through choppy waters

Paul Abrahams and Christopher Lorenz examine how teamwork and agility have helped Nautech sustain its prowess in international markets

For a company to win two British Design Council awards in a single year is unusual enough – but winning an award in consecutive years is almost unprecedented.

With yesterday's announcement of the 1990 awards, Nautech, a small Portsmouth-based maker of boat navigation equipment, has achieved both distinctions. Last year it won an award for its personal compass, and this year it was given two awards, for an auto-pilot and a system of navigation instruments.

To sailors and boat-builders, Nautech's long-standing commitment to design as a prime means of gaining competitive advantage has been evident in very concrete form since its foundation in 1974: the effectiveness, quality, and attention to detail of its autopilots, which help steer yachts and power boats automatically.

As a result, Nautech thrived commercially. The company became market leader in sailboat auto-pilots, with about 40 per cent of the world market. Ten years after start-up, its sales had grown to £4.2m by 1984.

But gaining extra competitive advantage through design is seldom achieved easily, as Nautech discovered in the months before it launched its award-winning new navigational instruments onto the UK market at the London boat show in January 1989.

By the time it had decided to develop these products in 1987, the market for autopilot products was becoming increasingly over-crowded. Between 60 and 70 per cent of boats were already equipped with autopilots.

"We needed to diversify quite urgently," explains Derek Fawcett, Nautech's founder, majority shareholder and managing director. "Our growth had slowed to only 5 per cent. In a technology business like this you grow or die. Quite simply, we couldn't remain simply an autopilot company."

The company decided to move into navigational display instruments by providing a series of products, illustrating speed, wind, depth and compass direction, which could be linked together with a communications system – which it later gave the name SeaTalk. The idea was that each of the instruments could display information from the others no matter where on the boat they were located.

The decision to move into instruments rather than in a different direction was motivated heavily by the knowledge that existing products were expensive and that the company had the necessary expertise to develop the product internally. The market for instruments was also growing at between 10 and 15 per cent a year. An added attraction was that the distribution channels for the two sets of products were similar and in many cases identical.

"Our primary market would be boat-builders – the retro-fit market is quite small," explains Fawcett. "Boat-builders compete on basic prices and then make their margins on optional extras. If we were going to penetrate the market, we had to appeal to the boat-builders with a product that was relatively cheap and easy to instal – a one-step economical solution."

The advantage for the company of providing a cheaper product was that once it was installed on the boat, the end customer would almost undoubtedly want any additional instruments to match the product already there.

If Nautech was going to be able to convince its distributors to handle its instruments as well as its existing autopilots, the new products needed to meet its expectations in full. That meant that they must be well-designed in every respect – not merely functional, convenient to instal, and cost-effective, but easy to understand and read, as well as attractive.

To work with the in-house project team, Fawcett chose an industrial designer called John Wickham, from a Northamptonshire-based design consultancy, Bell Wickham. Wickham had worked closely with Nautech on a number of other products, becoming almost an insider in the company, and had already helped it win a Design Council award for its personal compass in 1989.

But the project proved far from plain sailing. As it progressed, a conflict began to appear between the team's commitment to the principle that a prime function of the instruments should be that they should be easy to read, and one of the other requirements – that they should be pitched at the lower-middle price range of the market.

The team made a series of modifications which undoubtedly improved the products, but also added cost to them. For example, it soon became apparent that the 14-segment liquid crystal display that had originally been specified for instruments looked horrible. Letter 'S's looked like fives, and 'D's looked like zeros. The team decided instead to adopt a dot-matrix technology which was considerably more expensive, but looked much better.

It was also decided to opt for back-lighting, so the instruments could be seen at night. This avoided the need for flood-lighting at the side which would have been cheaper, but providing less legibility.

By June 1988, just six months before the target launch date at the London boat-show, it became apparent that the extra specifications had reached a point where the cost added into the products would force the end-product price beyond what the market would accept. The instruments were beautifully designed, but too expensive.

It was at this late stage that the company decided to create additional products within the range which would be in the same format as the other instruments, but combine two functions: speed and depth.

The motive for this eleventh-hour move was that a competitor had brought out a product which contained two functions almost for the price of one. Nautech had realised that this would be attractive to boat-builders, but had planned to develop such an instrument later.

"Technically, the original SeaTalk instruments were not a risk, but Tridata – the new product – was the joker in the pack," explains Peter Long, the electronics design manager on the project.

"We had to put the electronics for two different products into the single box, combine it with the SeaTalk electronics, and then fit it into the case designed for the series – we didn't want to compromise the design. In addition we needed to write the software and design the necessary chips – and we had to do it in six months. It was a high risk and there was a danger that we would not achieve any of our goals," he says.

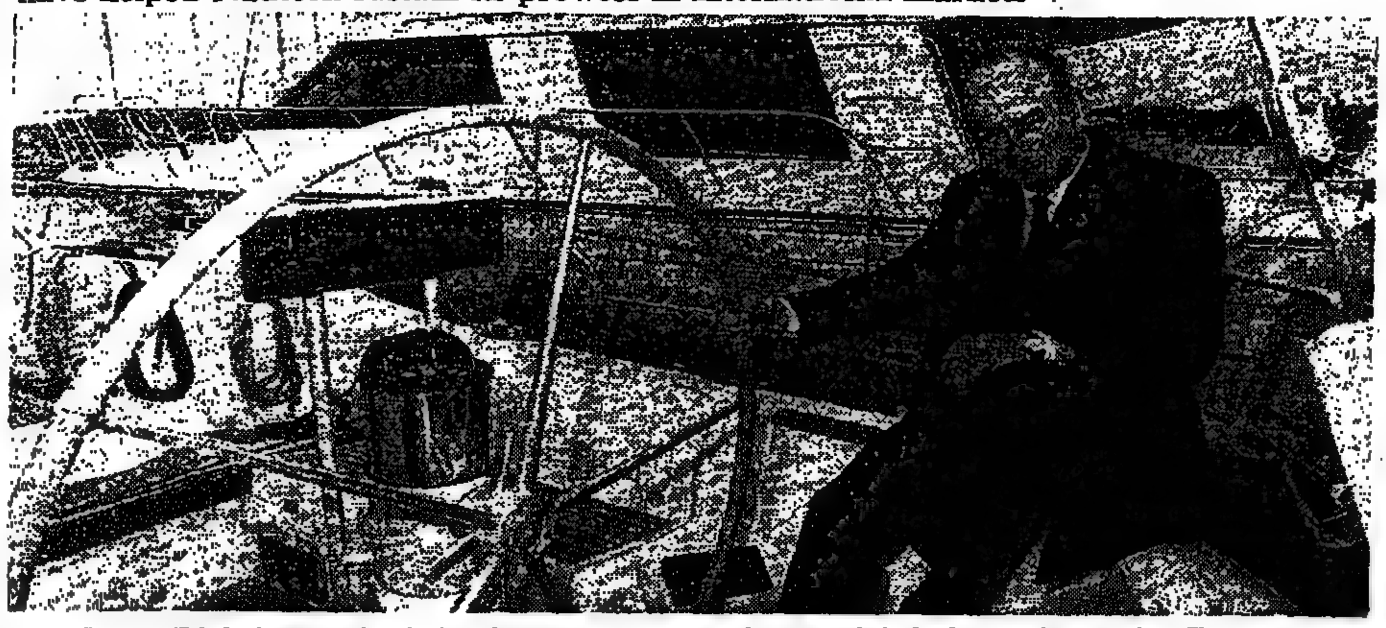
In the event, the software for the product was not ready in time to instal into the chips from Intel. In an attempt to have the instrument ready for the 1989 boat show, the team worked throughout the Christmas holiday. There was no time to test the product, but it was just ready for the London boat show.

"We had to reach the market by the boat show or we would lose credibility with our distributors and customers. But it was far from ideal. I've never been put under pressure like it before, and I never want to again," says Peter Long.

In the the end, despite the difficulties it had created, Tridata proved to be the key to the success of the whole range.

"We had expected the instrument market to be a tough one to crack," explains Ian Godfrey, the marketing manager at Nautech. "But because of Tridata we got it completely wrong. The consumers showed no inhibitions towards the products and the demand submerged our conservative planning. We sold somewhere between 2,500 to 3,000 units in about six months – three times our original forecasts. We actually had to turn away wholesale distributors."

The impact on Nautech's turnover was startling. Following the launch of the instruments, sales grew last year by nearly 25 per cent to £9.2m, 80 per cent exported. For Fawcett and his colleagues, it was the most frenetic year in the company's history.



Derek Fawcett: "We had to appeal to the boat-builders with a product that was relatively cheap and easy to instal"

Nautech's two Design Council awards represent two of a total of 17 announced yesterday, mainly for small and medium-sized companies. The awarded products range from computer software to window handles, pumps to office terminals.

Apart from Nautech's "double", the highlight of this year's awards is that, for the first time since the scheme started in 1957, the Council has given awards to foreign-made products designed by British designers.

One of the purposes of this change is to underline that British industry is failing to make sufficient use of home-grown design talent.

Three non-UK-made products received awards: a cordless telephone designed by Moggridge Associates and manufactured by the Danish company Dancall Radio; the AgendA pocket organiser and word processor made in Singapore for Microwriter Systems, and a safe designed by Racal-Chubb which is manufactured at a plant in the Netherlands.

For the 19th year, no awards were given for mainstream consumer products such as domestic appliances, furniture, carpets or bathroom equipment.

When satisfaction does not equate with productivity

By Michael Dixon

Are people who feel satisfied in their jobs more productive than those who do not? The consensus view among managers seems to be that the answer is yes. But the known facts contradict that commonsense belief.

Certainly, studies of various types of worker have found that the highly productive are often satisfied in their work. On the other hand, research has also shown that people low in individual output often feel similar satisfaction, perhaps because they like the easy life their bosses allow them.

So productivity can hardly be caused by job satisfaction; the connection is, if anything, the other way round. What ultimately accounts for unusually high individual performance remains obscure even though there has long been a word for it – "motivation".

Some fresh light on the mystery has been provided by Nigel Nicholson of Sheffield University's Social and Applied Psychology Unit. He has studied nearly 4,600 workers in seven different organisations, although six belong to the same parent company. And one of his questions is: "Of the various things your managers do, which make you feel motivated?"

The answers can be related to a classification of the whole gamut of managerial activities which divides them into five categories, ranging between two extremes. At one end are activities focused on workers' human needs. At the other are those centred on the objective demands of the task for completion of which the manager is responsible.

The human-focused kind are called "nurturing". The next set are "guiding", followed by "democratic". Then come activities which are "upwardly influential" in being aimed at gaining approval and support from the manager's superiors, and finally the task-centred variety.

While commonsense may suggest that nurturing activities have the greatest effect in making managers popular with their subordinates, earlier research indicated that the upwardly influential kind are the most decisive. It seemed that the generality of employees most liked to work for someone with political clout in the organisation.

But the Sheffield University researcher has probed beyond popularity into the underlying factors which account for it. One of them, for example, is the extent to which people feel relaxed and comfortable working for their managers. According to his analysis, the activities mainly linked with such feelings are nurturing, guiding, and democratic – the three groups clustered at the human end of the scale.

The pattern is markedly different when the question is what makes workers feel well motivated. The activities most strongly linked with that kind of feeling are the two at the opposite extremes: nurturing and task-centred.

Nicholson told the British Psychological Association's recent conference in Windermere that his findings gave practical-trial support to a pair of decades-old framework theories about management. They are the two-dimensional managerial grid developed by Robert Blake and Jane Mouton, and the three-dimensional grid produced by Bill Reddin.

These suggest that it is not enough for managers to be single-minded, concentrating either on the human wants of their subordinates or on the objective demands of the task in hand. Nor is it enough for them to split their attention between those two elements, devoting perhaps half of it to the one and the remaining half to the other. If managers are to get the best out of the human and other resources entrusted to them, they must find ways of concentrating on both elements at the same time.

Nicholson's results do not stop at supporting that view; they suggest that the theories understate the problem. While the nurturing and task-centred activities had the strongest links with motivation, it was also linked pretty strongly with the other three. So it seems that the job of motivating staff calls for managers who are not just good, but excellent all-rounders.

Ruby Wax in 'Hit and Run' and Richard Cowley in 'That's Entertaining' smacks of tabloid journalism; but 'Taking Liberties' is serious

TELEVISION

'Wacky' seems to be the key word

The 1990s are upon us, the quantity of television continues to rise inexorably, and a major part of the increase consists of non-fiction. This is nearly the same as saying we are being offered more and more TV journalism, but not quite: you can hardly call *Hit And Run* or *That's Entertaining* "journalism," though you would have to classify them as non-fiction. What about *That's Life* which has just returned? Since it cannot be categorised as fiction it too must presumably be non-fiction. But when Esther Rantzen begins by inquiring about the performance of one of her team of dolly-boys in *Dick Whittington* and remarks "I'm sorry I didn't manage to see your di–" would anyone call that journalism?

In the US the fashionable term is "info-tainment" which is self explanatory if somewhat clumsy. More useful, perhaps, is the phrase "tabloid television" since it implies aims and values similar to those of tabloid newspapers, with entertainment, sentiment and sensation often playing more significant rôles than information. It also suggests an attitude towards presentation which assumes a pretty low level of sophistication in the audience, and a short attention span.

Among serious commentators, especially serious journalists, this sort of television is almost universally scorned. It always was. When the BBC ran *Nationwide* each weekday in the early evening it was regularly ridiculed for its supposed obsession with skate-boarding ducks. It did once run just such an item, and may even have repeated it. But most of *Nationwide* was perfectly normal news and current affairs material, though handled in a popular manner.

The thing is that while educated people seem willing to ignore the publication of tabloid newspapers which heavily outsell broadsheet newspapers every day, they become indignant about television programmes which attempt even the palest version of the same sort of thing. And it is, usually, pale. Politically, sexually, and in other ways such television programmes are much less likely to offend than their printed equivalents. The difference, presumably, is that whereas educated people can go through life virtually without coming into contact with a tabloid newspaper, all find themselves from time to time gazing like fascinated rabbits at some snake of a tabloid television programme. Unlike the tabloid press, such programmes pour into our homes willy nilly.

Yet in a world where the quantity of television is rising it is difficult to see why, if there is a demand for it (and there seems to be) tabloid journalism should not spread to the electronic medium. Surely the question to ask – as with print – is whether the journalism, at whatever level, is good of its sort. In the long run the Broadcasting Bill currently going through Parliament could have a dreadful effect upon both the quantity and quality of serious journalism on television, but an honest onlooker would have to acknowledge that at present there is more good, if not outstanding, journalism on British television than ever before.

In addition to the familiar titles – *Panorama, This Week, Dispatches, Horizon, Viewpoint, 40 Minutes, Channel 4 News, The Money Programme, Everyman, Newsnight, Food And Drink, The World This Week, Fragile Earth, A Week In Politics, World In Action,* and more – we do still get one-off series of excellent journalism. The most impressive new one this season is *Taking Liberties* produced by Elizabeth Clough for BBC2.

Taking up cases of "lives shattered by injustice," the programmes are written and presented by David Jessel. He does not chase double glazing salesmen down murky corridors but in his own civilised way Jessel has become one of the most impressive investigative journalists working in Britain. All three programmes in the series so far – on the effects of bankruptcy, the Army's nasty habit of running young soldiers in full battle order until one dies of heat exhaustion, and the utter ineffectiveness of sex discrimination legislation – have been devastatingly clear and effective bits of journalism.

The same cannot be said of Channel 4's new series, *Europe Express*. It is less important that one of its four young reporters based in France, Germany, Italy and Austria should begin her report by asserting "This affair has shaken France quite literally to the roots" (. . no pictures of people burrowing under trees) than that the producers should think it a good idea to provide a report from Vienna in the style of *The Third Man* complete with zither music, interview on the big wheel and cameras angled across drain covers.

If it could be done without distraction, all well and good. In the past too much of television's foreign reporting has been dull, ponderous, and worthy, and there must surely be room for a programme delivered in brief digestible segments. But the trouble with the Vienna item, as with much tabloid television, was that it was so busy going "Wham! Bam! Dig this technique!" that both producers and viewers tended to forget about the content. Much the same applies to BBC1's new fortnightly fitness series on Sundays, *It Doesn't Have To Hurt!* An exclamation mark in a title is always a warning sign, and sure enough each interviewee came to us – for reasons best known to the producers – squeezed into an electronic letterbox sandwich.

With BBC2's *Hit And Run* and *That's Entertaining* on Channel 4 there is a different difficulty. Here the producers seem to have noticed that quite a few successful presenters – Patrick Moore, David Bellamy, Magnus Pyke – are somewhat eccentric and highly successful. So in *Hit And Run* we have Ruby Wax coming on like Ethel Merman on benzedrine, rushing about the landscape to carefully arranged meetings which are then presented as chance encounters (in a pop festival lavatory for instance).

In *That's Entertaining* Richard Cawley dons a series of outfits which look like things Julian Clary might have rejected, and minces around like Julian's friend Sandy, chatting in a camp way to all and sundry, while cooking for various groups of people. The odd thing is that what you do *not* see are the details of food preparation, so you could not go away from these programmes and actually cook any of the featured dishes. In both series "wacky" seems to have been the key word and "journalism" hardly counts.

We have now seen the tabloid treatment given to programmes about science, Europe, music, "yoof," medicine and many other topics. One of the least affected areas is the arts. Too often here matters seem to be stuck in a time-warp, the only exit being via an old Hampstead coffee bar. Last week's *Signals*, for instance, considered a new wave of comedians who may be starting to edge out the "alternative" group. After seeing a small number of examples we were treated to a studio discussion in which every single member of the panel was willing to go to the barricades – well, take an expenses paid trip to Soho, anyway – to fight for the right to make jokes about menstruation, masturbation, condoms and tampons.

And how about freedom of expression for the new crowd? No doubt on that one: the studio liberals were *all* willing to stand shoulder to shoulder with Mary Whitehouse and fight for the right of absolutely anybody, man or woman, black or white, to make the sort of jokes with which they happened to agree. Doesn't it make you feel warm inside? An American comedian called The Diceman had said to a chap in the audience about his female companion "First time you banged her, was she any good? Yeah? Let me ask you another question: how did she get to be that way?"

This was considered by one feminist studio guest to be sexist and offensive. What we did not hear her express any offence about was a British feminist comedian who told a man in the audience "I don't respond to hecklers, I just sit on their faces. But perhaps I won't with you because I don't have my period at the moment." Pretty funny, yah? And feminist too, yah? So she should definitely be allowed to say it, yah? Right on.

With the same attitudes dominating *The Late Show*, arts journalism on television looks like an area which might benefit from a little tabloid input.

Christopher Dunkley

Jonathan Burnett

THE PLACE

"Jonathan Burnett will recite Milton's *Lycidas* nude." Had the ads said that, how many more people might have attended his one-man dance recital on Monday night. Not that this event, mind you, was any treat for lovers of the male nude or of Lycidas; no. This was, the programme said, dance theatre; and it constituted the first half of Burnett's new work *Monodies*. As he – standing full-frontal – gave his rather indistinct rendition of Milton, he mimed slowly putting on clothes, and then sat down.

Next, we heard some Beethoven (Claudio Arrau in two movements of the Sonata No 32 in C minor) and when the lights came on again, there was Burnett, dressed in black as a top-hatted Victorian clergyman, his frock-coat sticking stiffly out – like a tutu or an 18th century male dancer's *tonnelet*. Then a slow striptease, gradually less solemn. The movement grew more expansive, liberated and dancey as he neared nudity.

It is for us to connect the two halves of *Monodies*. The clergyman is one of the corrupted clergy attacked by Milton. Nudity, an idyllic state appropriate to Lycidas, is alien to men of the cloth. And so on. It's more interesting to think about Burnett's performance – which for some reason was called *Vestris* – than it was to watch it. By the time I'd been there for 90 minutes I wanted to buy him a drink; but I didn't much want to see him dance again.

The earlier works of the evening, for which he was clothed, included music by Ravel *Menuet sur le nom de Haydn*, Stravinsky *Trois poésies de la lyrique japonaise*, Irish folk music and Dutch jazz variations on, I think, "Baa baa black sheep." Moment by moment, Burnett is not unmusical; but the music's moments cohere into wholes, whereas his moments don't.

Most of his work occurs within narrow pools of light. (It's phone-booth choreography.) Much of it is seated on the floor. *The Floating World*, to the Stravinsky, was a series of such solos. Each of its pools of light was a different colour and in a different place. The green one occurred just beside me, halfway up one of the aisles, Burnett perched on the stairs; the red one was at the back of the auditorium, out of sight.

In *Six Variations on a Popular Theme*, Burnett simply shifted from pose to pose to pose. Eventually, the dance accelerated and you began to see the flow between the poses. Again, however, that was only something to think about, not to enjoy, for Burnett did it all with such unrelieved, unreleased tension. Another dancer might have made it more appealing. As Burnett performed it, the evening was just the choreographer's new clothes.

Alastair Macaulay

L'amfiparnaso

SHAW THEATRE

The London Mime Festival began this week with its customary challenge to prevailing perceptions of this much-maligned art form. The leading combatants this year in a pretty international field are our own Trestle Theatre, whose mixture of mask, mime and opera had the critical fraternity for starters in a moither, uncertain whether it was a date for the music or theatre diary.

L'Amfiparnaso, their update of a 16th century comic opera, continues the unmasking process set in train by Trestle's last show *Ties that Bind*. In this case, the familiar lugubrious faces act out their little *amours* to a madrigal narrative by a team of unmasked operatic waiters on the surface of a huge, gingham-check tablecloth laid, at various stages in the evening, with crockery, cutlery and the ingredients of a three-course meal.

A monstrous melon slice is dusted and decorated before becoming a seesaw for the squirming courtship of the restaurant owner's plain daughter, Isabella, and her gawky beau; a plateful of ravioli becomes a prop in a suicide attempt by the grieving Isabella after her beau tumbles backwards off the top of a menu card to certain death.

The wit of the piece rests on its juggling with the conventions of comic opera: the melodramas of these miniature, unremarkable people are the melodramas of opera placed in an entirely new and surprising perspective, just as the use of masks reflects and elaborates on the maskwork of Commedia del'Arte, complete with its archetypes – Pantelone, here a wealthy, faintly menacing restaurant owner, and Gratiano, his fellow-mason and gambling-partner.

At the heart of the show lie the beautifully sung madrigals of the composer Orazio Vecchi, augmented by the occasional corny reference to the music of science fiction films or of ageing crooners with stick-on sideburns and gold medallions. As someone not intimitely acquainted with Vecchi, it strikes me that far from trivialising his work,this apparently cavalier treatment brings it roaring to life, illustrating the symbiosis of his comedy and his music without needing to labour any point.

There are some sequences in Toby Wilsher's production which could profitably be honed down, but the inventiveness of the staging, the ingenuity of Sally Preisig's design and the calibre of the singing make a wholly convincing case for the value of companies like Trestle as bridges to the often elusive values, conventions and aesthetics of the past.

The mime festival continues at venues throughout London until January 28.

Claire Armitstead

More Berio

BARBICAN HALL, RADIO 3

The balance between old and new Berio in the BBC's Barbican series is nicely judged. Monday's concert, with the London Sinfonietta conducted by Stephen Harrap, introduced two brand new pieces to this country, and prefaced them with his first foray into combining live and electronic sounds, *Différences* of 1958. Even such an early piece seems now quintessential Berio. While his contemporaries were preoccupied with recreating syntax and form within the new medium, he was already using it to create the most luscious sound complexes.

Berio's current technological investigations centre upon his own research institute in Florence and the first fruit of that setup is *Ofanim*, premièred a month ago. The sounds of the chamber orchestra are computer-transformed in real time and sent spinning around the auditorium through 16 loudspeakers, while a double children's choir (the Finchley Music Group here) presents Old Testament texts from Ezekiel and the Song of Songs.

The instrumental music is febrile and tense, the choral lines simple and direct. Sometimes the textures thin to a single instrument (there is a pivotal solo for trombone), but Berio reserves his clinching gesture for the close when a solo mezzo soprano appears to deliver another apocalyptic vision from Ezekiel.

The part was composed for the Israeli Esti Kenan Ofri and, delivered by her with unmistakeable Herbaic inflections, the effect is haunting, theatrical in the best sense and, as always with Berio, beautifully paced. Recent scores have regained the certainty and precision of scale that marked his music of the 1960s, and which tended to desert him thereafter.

Canticum novissimi testamenti II is as effective and compelling as *Ofanim*; it is a setting of sections of a poem by Eduardo Sanguineti which contemplates mortality and which Berio matches to eight-part choral writing of almost Stravinskian austerity, unadorned with electronics and underpinned with just quartets of clarinets and saxophones.

There are the recognisable fingerprints in the vocal writing, the delicious dissolves into pure phonemes, the flights of lyricism in which no other contemporary composer can match his sensuousness; but there is also a strength about the piece, a seriousness that matches the subject matter, and which seems to pick at many of the threads of *Un re in ascolto*. Berio's music, it seems, is increasingly preoccupied with the provisional nature of things.

Andrew Clements

Edward Boyle Music Award

WIGMORE HALL

Among the Monday night debuts at the Wigmore Hall the Edward Boyle Music Award has become established as the source of promising vocal talent. In 1988 there were two winners and the opportunity to show what they can do came with their prize-winning joint recital this week.

Any suspicion that the event might be looked upon merely as another hurdle on the way to a career was largely dispelled in the first half. Without in any way overselling himself, the English baritone Nigel Cliffe brought an easy personal touch to his songs.

In Fauré, always a cruel test for a young singer to make interesting, he sang with strength and style, bringing to L'Horizon chimerique just enough of the salt tang of the sea.

At its best Cliffe's voice is a keen and youthful baritone with no serious problems, even if he could have done with an ounce more power to keep up with the most enthusiastic outbursts of his lively accompanist, Paul Turner. In all, this was a rewarding sample of the singer's work, technically secure, good with words and vocal line alike, and in Barber's Three Songs, Op.10, rising to a higher level: a piece of really stirring and memorable singing.

After the interval the temperature unfortunately cooled, though that may not entirely have been the fault of the second singer. The Irish soprano Regina Nathan has essentially a pleasing light and silvery soprano. At the top it can also open out with unexpected fullness and the best moments in her half of the evening came when one caught the voice soaring above the stave in the manner of a pure and penetrating Straussian Sophie.

With a plain accompanist in support, though, the rest was less interesting. The songs of Wolf really need a full Lieder singer's range of colours, those of Moeran a more communicative way with words. No doubt Miss Nathan will soon take flight from recital halls and be caught confidently on the wing in the opera-house.

Richard Fairman

SALEROOM

Renoir could fetch $50m

Sotheby's is to sell one of Renoir's most famous images, "Au Moulin de la Galette," which shows revellers beneath the acacia trees at the Montmartre open air dance hall. An estimate of $40m-$50m is placed on the painting which goes under the hammer in New York on May 16.

"Au Moulin de la Galette" is famous through the version currently in the Musée d'Orsay. This is a slightly smaller version, measuring 31 by 44½ inches, but many art historians believe that this was the original and actually painted on the site in 1876. It was Renoir's most ambitious work to date, the first to depict a crowd scene, a group of his fashionable friends enjoying an afternoon drink while couples danced around them. As David Nash of Sotheby's quite rightly says, it is "the quintessential Impressionist painting."

It was bought in 1929 by John Hay Whitney, a former American Ambassador in London, who died in 1982. It is being sold now for "estate tax planning purposes." For once Sotheby's estimate does not seem inflated and "Au Moulin..." could easily become the most expensive work of art sold at auction, exceeding the $53.9m paid in 1987 by Alan Bond for Van Gogh's "Irises." It is a more famous image than and one that will greatly appeal to the Japanese, the main buyers of Renoir in recent years.

Antony Thorncroft

ARTS GUIDE

January 12-18

THEATRE

London

Anything Goes (Prince Edward). Cole Porter's silly ocean-going 1930s musical has four or five marvellous songs and Elaine Paige failing to emulate Ethel Merman. Jerry Zak's desperately bright production comes from the Lincoln Center in New York and is undemanding fare (734 8951, cc 836 2428).

Jeffrey Bernard is Unwell (Apollo). Brilliant performance by Peter O'Toole as an alcoholic journalist who embodies a Falstaffian, nay-saying life force while committing public suicide by vodka. Keith Waterhouse has stitched a fine play, the season's highlight, from Bernard's own writing. Ned Sherrin directs (437 2663).

The Good Person of Sichuan (Olivier). Magnificent National Theatre revival by wunderkind Deborah Warner of Brecht's great parable of moral ambiguity about a Chinese prostitute who can only do good by adopting a vicious disguise. If poverty is not combated by political systems, what can an individual's compassion do? Witty new translation by Michael Hofmann. Fiona Shaw leads a fine cast in a play new-minted for the 1990s. Jan 17-18, Jan 29-Feb 3 (928 2252).

A Little Night Music (Piccadilly). Fine revival by Ian Judge,imported from Chichester, of Sondheim's 1973 schlagobers version of a Bergman film. A beautiful score, composed mostly in waltz time, is touchingly performed by Lila Kedrova, Dorothy Tutin (her best work in years), Peter McEnery and Susan Hampshire (867 1118).

Another Time (Wyndham's). New Ronald Harwood play, directed by Elijah Moshinsky, about a white South African family in Cape Town and Maida Vale. Albert Finney plays father and concert pianist son across 35 years, suggesting that talent is a means of escape and a reason for not going back. Janet Suzman and Sara Kestelman are electrifying in support (867 1116).

M. Butterfly (Shaftesbury). Peter Egan has taken over from Anthony Hopkins as the tortured diplomatic hero in a Peter Shaffer-style "spectacle of ideas" dressed up in John Dexter's superb production as a metaphor of homosexual life. The transvestite tragedy proves less electrifying than in New York; the play is not very good but still worth seeing (379 5399).

Aspects of Love (Prince of Wales). Andrew Lloyd Webber's latest is an intimate chamber operetta derived from David Garnett's 1955 novella. Musically interesting and well directed by Trevor Nunn, a cast of unknowns project the right sense of sybaritic insouciance. A probable, but unspectacular, hit (839 5972).

New York

Heidi Chronicles (Plymouth). Wendy Wasserstein's award-winning drama covering 20 years in the life of a successful American baby boomer goes from support for Eugene McCarthy's presidential aspirations to electoral ambitions in the 1980s, accompanied by the musical and emotional flavour of the period (239 6200).

Gypsy (St James). This 30th anniversary production does more than revive a rich, vivid musical; it also introduces a new belter in the Merman tradition, Tyne Daly, as the bossy, tireless and tuneful Rose, who shamelessly leads her daughter into burlesque while rejecting a personal life for herself (246 0102).

Grand Hotel (Martin Beck). Tommy Tune, Broadway's present musical doctor, directs this remake of the Garbo film to at least shake the bones of this inert depiction of lives criss-crossing in an elegant, but somewhat random setting (246 0102).

Sweeney Todd (Circle in the Square). An intimate production of the Sondheim-Wheeler musical in contrast with the elaborate original a decade ago emphasises the descent into madness of Bob Gunton as the demon barber of Fleet Street (239 6200).

Jerome Robbins' Broadway (Imperial). Anyone attracted by the notion of three hours of film trailer previews will adore this compendium of Robbins' directed and choreographed plays of the past 40 years, including On the Town, West Side Story and Gypsy. The lustre of the credits is dimmed by the brevity of each piece, with a contemporary crew of Broadway aspirants who lack the multi-talents that inspired the heyday of the musical.

Rumours (Broadhurst). Neil Simon's latest comedy is a self-conscious farce, with numerous slamming doors and lots of mugging but hollow humour that misses as often as it hits. Christine Baranski leads an ebullient cast in the inevitable but disappointing hit.

A Chorus Line (Shubert). The longest-running musical in the US has not only supported Joseph Papp's Public Theater for eight years but also updated the musical genre with its backstage story in which the songs are used as auditions rather than emotions (239 6200).

Me and My Girl (Marquis). Even if the plot turns on ironic mimicry of Pygmalion, this is no classic, with forgettable songs and dated leadenness in a stage full of characters. It has nevertheless proved to be a durable Broadway hit (947 0033).

M. Butterfly (Eugene O'Neill). The surprise Tony winner for 1988 is a somewhat pretentious and obvious meditation on the true story of the French diplomat whose long-time mistress was a male Chinese spy (246 0220).

Phantom of the Opera (Majestic). Stuffed with Maria Bjornson's gilded sets, Phantom rocks with Andrew Lloyd Webber's haunting melodies in this mega-transfer from London (239 6200).

Washington

Annie 2 (Opera House). The American theatre is not immune to sequel-itis, which plagues the other arts, and here ordains a return trip to the orphanage for Dorothy Loudon surrounded by 18 sets, 33 actors and one dog. Ends Jan 20 (467 4600).

Chicago

Steel Magnolias (Royal George). Ann Francis and Marcia Rodd play the leads in this view of southern life from under the dryers in a busy hairdressing establishment (988 9000).

Winter's Tale (Goodman). Frank Galati directs a production that spans the ages, interpreting Shakespeare as running from Ovid and television. Ends Feb 17 (443 3800)

I'm Not Rappaport (Briar St). Shelley Berman, one-time standup comic, now plays Nat, Herb Gardner's memorable Central Park character who gags his way through the 1986 Tony Award winner. (348 4000).

The Good Times are Killing Me (Body Politic). This City Lit production of Lynda Barry's first play captures an American childhood with poignant zaniness (871 3000).

Tokyo

Kabuki. The festive new year programmes (at 11am and 4.30pm) at Kabuki-za feature all the top stars, including several Living National Treasures. Among the highlights of the matinee is a famous scene from *Benten Kozo*, whose underworld hero dresses as a lady of rank to carry out a raid. Opens Jan 2 (541 3131). At the National Theatre a triple bill featuring mainly younger actors and including Yanone (The Arrowhead), an evergreen new year favourite acted in the extravagant "aragoto" style. Opens Jan 3 (265 7411).

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A modest deal for Mexico

AMID MUCH fanfare, the formal signing will begin early next month, probably in Mexico City, of the debt agreement between Mexico and its 450 or so bank creditors. The Government is expected to use the ceremony to attract attention to the transformation wrought over recent years in Mexico's economy.

One hates to spoil a good party. But it is now clear that if Mexico eventually puts its debt problem behind it, the contribution from the new debt accord will have been modest indeed. The new strategy, announced by Mr Nicholas Brady, the US Treasury Secretary, was meant to shift the focus of the international debt effort away from new lending by banks to a reduction in the debt burdens of highly-indebted countries. Yet Mexico's debt will hardly fall at all.

Its foreign debt totals $100bn, but the medium and long-term bank debt covered by the agreement amounts to less than half of that, $48.5bn. Banks had three options: to make new loans equivalent to 25 per cent of their current exposure over a four-year period; to swap their old loans for 30-year bonds paying the same interest as the new loans (13/16 point over money market rates) but with a face value discounted by 35 per cent; or to swap their loans for 30-year bonds paying a fixed 6¼ per cent interest rate. The discount and the fixed-rate bonds carry guarantees, equivalent to 18 months of interest payments and the principal repayment after 30 years.

Banks representing about 49 per cent of the exposure chose the fixed-rate bonds. While not reducing the nominal debt burden, these lower Mexico's interest payments. Assuming short-term interest rates at around current levels, and a normal margin for banks, the interest saving is roughly 3 percentage points on $23.7bn of debt – $700m a year.

Increased debt

Forty-one per cent chose the discount bonds, reducing $20bn of existing debt by $7bn. However, banks representing 10 per cent of the exposure opted for new loans, so increasing Mexico's bank debt by $1.2bn.

The net reduction in Mexico's bank debt is $5.8bn: roughly equivalent to the new loans Mexico must borrow at market rates from the International Monetary Fund, World Bank and Japanese government, in order to finance the bond guarantees.

Mexico has undertaken not to reschedule the bonds issued under the package and has increased its borrowings from the multilateral institutions, which cannot be rescheduled. It has thus reduced its future flexibility for a net benefit of $700m a year, equivalent to a reduction of about 8 per cent in its total debt service.

Confidence boost

Two other benefits may accrue. The accord should halt the growth in Mexico's debt burden that an agreement with banks would have involved under the old strategy. Second, news of the agreement provided a boost to confidence in the Mexican economy. The hope must be that this proves more than short term.

A number of important concerns remain. Despite Mr Brady's view that negotiations between banks and debtor governments would be entirely a matter for them, even the modest benefits gained by Mexico would not have been possible without strong US intervention. Whether such support will be exercised on behalf of other debtors is doubtful. In addition, without similar relief for debts to official western creditors, the new strategy will yield only small benefits for many countries. Finally, a significant part of the benefits of Mexico's increased official borrowings is going to private creditors, not its people.

The dilemma for a country like Mexico is that its economy is neither in good enough shape to repay its debts in full, without some relief, nor in such a poor state that it can obtain voluntary agreement from the banks to a really significant reduction in its debts. In consequence, the main beneficiaries of improved economic performance are still its creditors. The Brady initiative has intensified the moral hazard faced by many debtor countries: the worse they have behaved, the better the deal they are likely to receive.

The price of leverage

IN THE US Mr Robert Campeau's two main store chains this week filed for protection under Chapter 11 of the US bankruptcy code. The move comes close on the heels of a decision by US buy-out specialist Kohlberg Kravis Roberts to put its Hillsborough Holdings construction concern under bankruptcy court protection. Elsewhere the Australian entrepreneur Mr Alan Bond is fighting to preserve his ailing business empire, the brewing interests of which are already in receivership. Back in Britain the Magnet retail concern has already succumbed to a financial restructuring within six months of a £600m-plus management buy-out.

This is an impressive tally of financial woe with which to start the decade. There is, moreover, a common thread: all the companies concerned were more or less willing victims of short-sighted bankerly excess. In the rip-roaring climate of the 1980s, leverage – the readiness to borrow large sums in relation to the equity in the business – was widely perceived as a miracle cure for financial and managerial problems. Against a background of deregulation, lax monetary policy and pliable accountancy, debt-financed takeovers flourished as never before.

Retail sector

The intriguing question raised by most of the troubled debtors' case histories is whether the bankers were incapable of reading a balance sheet or simply preferred not to look. To cite only one obvious example, several leveraged deals took place in the highly cyclical retail sector when it was already clear that demand was flattening and interest rates were rising. Many bond investors will undoubtedly discover in 1990 that their assumptions about junk bond returns have been based on wholly unrealistic default rates. And equity must surely stage a come-back before long. But how bad, in the interim, will the financial problems prove to be?

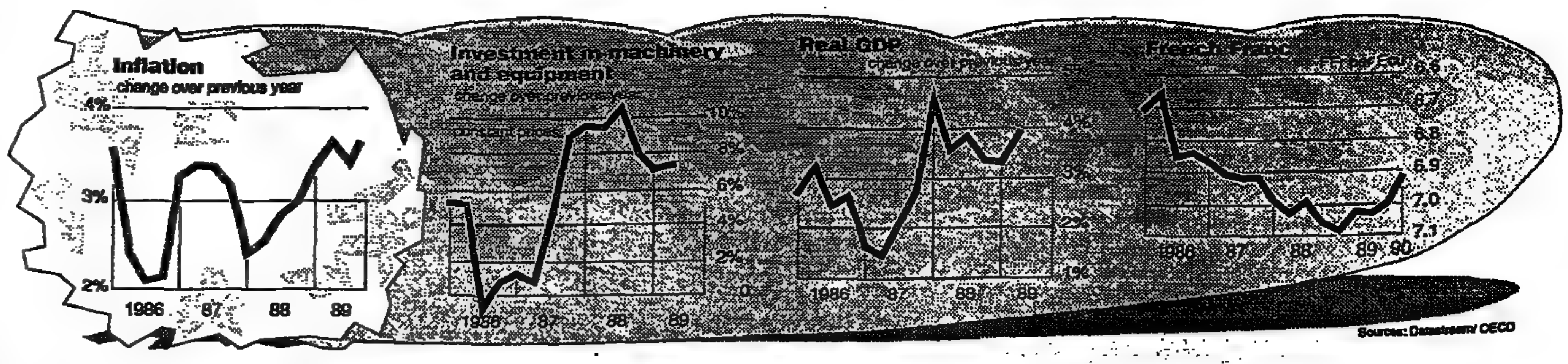
With hindsight, one of the more striking features of the second half of the 1980s was the way in which the 1987 stock market crash failed to undermine values in the market for corporate control. Equity investors may have lost their confidence, but bankers and bond investors continued to put up money for bids and deals, thereby keeping several overborrowed firms afloat.

It now seems probable that the failure of the United Airlines buy-out in October 1989, precipitated largely by a loss of confidence on the part of the Japanese banks, marked the turning point for the market in companies. Bid and buy-out premia have since been falling; and that is bad news for those like Mr Campeau and Mr Bond whose deals were financed on the assumption that a shortfall of income could be made good out of asset sales or otherwise refinanced with more IOUs.

Junk financing

The fact is that the ready availability of junk financing encouraged entrepreneurs to overpay, causing bid premia to soar. With confidence waning and re-regulation removing US savings and loan institutions as potential buyers of junk, that process is bound to reverse itself. It follows that while conventional bidders like Hanson may be able to take advantage of cheap buying opportunities, less orthodox raiders like Sir James Goldsmith will find it much harder to finance a hostile bid for BAT Industries. In the secondary market junk bond prices will in due course be seen to have responded indiscriminately. The banks' work-out officers will have their biggest field day since Latin America, while the pursuit through the courts of Mr Michael Milken, founder of the junk bond market in the US, and of those involved in the Blue Arrow and Guinness affairs in Britain, will provide fresh impetus for re-regulation.

The leverage bandwaggon will, however, almost certainly roll again. For the excesses of the 1980s reflected in part the bankers' search for fee income in the face of declining profitability in their core business. As long as that problem remains, the risk of further financial instability cannot be excluded. And the readiness of the Japanese to act as global lenders of last resort should not be taken for granted when Japan's financial system is progressively being liberalised.



Sources: Datastream/ OECD

Guy de Jonquières assesses the liberalisation of industrial policy

The break with French tradition

France's socialist administration, unlike Britain's Conservative government, does not brag about having rolled back the frontiers of the state. Yet in the nine years since President François Mitterrand first took office, the Government's role in the French economy has been re-defined more radically than under any leader this century.

Mr Mitterrand has not simply repudiated the massively interventionist policies pursued by his administration in the early 1980s. He has also scaled back the practice of Colbertisme, the doctrine which since the 17th century has enthroned the state as omniscient arbiter of the country's economic and industrial affairs.

Price and credit controls have been dismantled, central planning largely abandoned and the French capital markets liberalised. Industrial managers have been given far more freedom from interference by ministers and officials in Paris than they enjoyed even under right-wing presidencies.

Market-oriented reforms have been underpinned by liberal macroeconomic policies geared to maintaining the franc's parity in the European Monetary System. These have reduced inflation close to West German levels.

The rewards have been a burst of investment-led growth now in its third year, a steady improvement in manufacturing productivity and sharp recoveries in industrial profits and business confidence. Galvanised by the challenge of 1992, French industry is striving to overcome a long tradition of insularity, launching a wave of international acquisitions and mergers in the US as well as in Europe. In the words of Mr Jean-Louis Beffa, chairman of St Gobain, a leading industrial group: "There is now a taste for business in France."

Yet the break with tradition is still far from complete. France's state-owned sector remains one of the largest in Europe, and the borderline with private industry is often blurred. Furthermore, while the apparatus of dirigisme has been trimmed, its nervous system survives: most top posts in government, industry and finance are still dominated by a close-knit technocratic élite, schooled in a statist tradition, which remains firmly plugged into the centres of political power.

Nor has greater openness to Europe entirely eliminated defensive national champion attitudes, which often seem preoccupied more with corporate size than with efficiency. Air France's planned takeovers of UTA and Air Inter are a recent example of this belief that "big is best."

So how far will France's shift from statism to liberalism go? In a country which prizes logic and clarity, there is an uneasy feeling that a coherent model for future development has still to be identified. As one Paris banker puts it: "French capitalism is at a crossroads, half-way between the Anglo-Saxon free-market system and the 'concerted economies' of West Germany and Japan. The question is whether we can find a viable alternative route between those extremes."

One sign of this ambivalence is the marked contrast between the relish with which French groups have recently embarked on acquisition binges and their simultaneous desire to insulate themselves from the less appealing features of Anglo-Saxon capitalism, notably by erecting take-over defences.

Acquisitive larger groups, such as CGE and Lafarge-Coppée, have restricted shareholder voting rights and exchanged cross-holdings with friendly partners. Newer entrepreneurs, such as Mr Bernard Arnault and Mr Vincent Bolloré, favour "cascade" ownership structures, which allow control to be exercised through master holding companies which indirectly own majority shares in a chain of subsidiaries.

Such arrangements are justified by managers on the grounds that a stable shareholder base is needed to sustain long-term investment. Critics riposte that they entrench managements at the expense of investors and could, ultimately, threaten a reversion to the discredited French tradition of "capitalists without capital."

But it is questionable whether, without the bonding influence of large-scale state intervention, France's business community possesses the cohesion and identity of interest needed to cement long-term shareholder relationships on the German model.

Enough supposedly friendly investors have switched sides in recent takeover battles to suggest that such links can prove brittle.

In the face of these developments, the Government has sought to tread a narrow line, by stimulating enough competition to keep up the pressure for change without risking brutal shocks to the system. The finance ministry continues to press ahead with regulatory reform of the capital markets and recently relaxed its controls on foreign takeovers of French companies.

However, critics, particularly foreign ones, accuse the Government of being excessively cautious. They point out that many regulations which have long sheltered banking and insurance remain intact, while even the weakest brokers have survived the modestly increased competition which followed the removal of fixed stock market commissions last summer.

Some French bankers concede privately that their high margins and high costs are due to a cartelised market, which the Government continues to sanction because it makes it easier covertly to maintain official control. "The authorities haven't really bitten the bullet by signalling to the local market that it has to compete internationally," says one foreign investment banker in Paris.

Equally, many doubt whether the authorities are yet ready to stomach a foreign bid for a large prestige target, such as the Paribas investment bank or the BSN food group. "It would create a national scandal which would put the Government in a very difficult dilemma," says one banker.

Inextricably interwoven with these developments is the role of nationalised companies. These account for about 30 per cent of France's gross national product and include many larger banks, insurance companies and industrial groups.

'The authorities haven't really bitten the bullet by signalling to the local market that it has to compete internationally'

Eighteen months ago, Mr Mitterrand halted the asset sales instituted by the Chirac administration with his celebrated commitment to "neither nationalisation nor privatisation." As a pragmatic political ploy to still ideological dissent, "neither/nor" has been highly effective.

As a practical policy, however, it has proven awkward to implement.

Unable to satisfy fully their investment needs from the state coffers or by selling core equity – which would dilute the Government's stake – many nationalised companies have fallen back on borrowing, the sale of interests in subsidiaries and on issuing a variety of high yielding securities.

These devices have enabled state-owned companies such as Pechiney and Rhône-Poulenc to continue to expand through acquisitions.

However, inventing new funding instruments has taxed the ingenuity of international investment bankers. Hence, the nationalised sector has, ironically, stayed in business thanks to the very kinds of exotic financial engineering which Mr Mitterrand has excoriated in public.

A further paradox is that state-owned groups, particularly banks, insurance companies and the Caisse des Dépôts, the national savings institution, have been among the most active players in the liberalised stock market.

By some estimates, as much as 15 to 20 per cent of the equity of larger French quoted companies is owned by nationalised shareholders. Furthermore, the frontiers are being continuously shifted by deals such as the recent purchase by the state-owned UAP, France's largest insurance company, of 34 per cent of Groupe Victoire, a smaller insurer controlled by the publicly-quoted Suez group.

State groups have intervened periodically to build up strategic stakes and to support leading companies' share prices. While there is little evidence that they attempt unduly to influence management decisions, it is less clear how far they use their power to promote their own – or the Government's – perception of state interests.

This has been an exceptionally sensitive issue since the finance ministry backed, for party political reasons, an unsuccessful raid on the Société Générale bank led by Mr Georges Pébereau, a private financier, just over a year ago. That scandal was widely regarded as a watershed event, though for widely differing reasons. Some observers argue that the Government has been so embarrassed politically that it will never again attempt similar meddling.

They also point out that Mr Jean Peyrelevade, the influential chairman of UAP, resisted finance ministry pressure to support its manoeuvre, suggesting that the Government cannot count automatically on state-owned institutions to do its bidding. Furthermore, they argue that as the capitalisation of the Paris stock market grows, the influence of state-owned institutional investors will wane.

Others, however, are less sure. Many foreign bankers and some conservative French politicians and businessmen believe that if the economy turned sour, or if the Government faced serious political difficulties, it could be tempted to react by intervening more forcefully in financial markets and industry.

Given the rosy economic outlook, such warnings may appear alarmist. It is also a sign of how far liberalisation has gone that even the most cautious believe it is irreversible in the longer term.

None the less, Mr Mitterrand may find it trickier in future to reconcile support for market-oriented measures and freer competition with the views of Socialist Party activists. Some already complain that the party's identity has been compromised and are pressing the Government to redress the balance by adopting more obviously left-wing policies.

The point around which these issues crystallise may be European economic integration. The French Government has used the advent of 1992 skilfully as a pretext to ram through controversial policy measures and to spur industry to sharpen its competitiveness and adopt a more international outlook.

However, the Government will also have to face up increasingly to less convenient challenges of a single market, which threaten to circumscribe its freedom for political manoeuvre. A hostile bid by an EC company for a big French target, for instance, could present an embarrassing test of the authorities' European credentials.

France's acrimonious recent dispute with Brussels over subsidies to Renault has underlined the Commission's determination to enforce its competition powers more vigorously as 1992 approaches. As EC President last year, France was also obliged to accept moves by Brussels, which it had fiercely opposed, to deregulate airlines and telecommunications.

Another source of unease is the removal of capital controls, which France abandoned at the start of this year, ahead of the EC's mid-summer deadline. Though serious monetary turbulence has been avoided so far, there is concern in Paris that France's high tax rates on income from capital may encourage large speculative outflows over the longer term. If that happened, the Government could face a delicate political decision. Having failed last year to persuade its EC partners to harmonise withholding taxes, it could find it difficult unilaterally to lower its own rates.

Not only can France, which has one of the highest ratios of public spending to GNP in Europe and an annual budget deficit of about FFr100bn (£10bn), ill-afford to lose revenues, the Government is also reluctant to upset its Socialist and Communist supporters by appearing to favour the wealthy. That may leave further rises in interest rates as the only weapon in the authorities' armoury.

But such concerns which are still limited largely to a select circle of bankers and finance ministry officials, have not yet begun to cloud the radiant economic optimism generated by the recovery of the past two years. In the words of one international businessman with close links to France: "Right now, the French are enjoying a delicious dream." But he quickly adds: "They would be frightfully irritated and upset if something happened to wake them from it."

OBSERVER

Calling from Cambodia

■ It is hard enough for Cambodians to talk to each other by telephone from one neighbouring office to another nowadays, and the sound is not good even on internal systems. Getting a call, fax or telex through to the country from outside is little more than an idle dream these days. There are not many telephones and even fewer decent telephone wires.

But John Pedler, who used to be Our Man (very much with capital letters) in various Indo-Chinese capitals and is now occasionally our man in the same places, has transformed communications from Phnom Penh.

Pedler's many hats include one belonging to the Cambodia Trust and he is in Phnom Penh on an aid mission which includes the delivery of a portable communications package containing one telex line, one fax line and two telephone lines.

By climbing onto the roof of the highest building around – so far his hotel and the ministerial building nearby – and pointing at the Indian Ocean satellite, he connects through the Inmarsat system to a land base in Norway, which provided the equipment, and thence to England with perfect clarity.

After a few false starts through pointing it the wrong way or getting an obstruction in the line of sight, he now has it tapped. A lone figure barking English into a machine on a Phnom Penh roof-top at dead of night may be among the stranger sights in a strange city. But Pedler is coming through loud and clear: clearer even sometimes than our own internal systems.

Many tongues

■ According to the European Commission in Brussels, there are now at least 45 languages spoken in the European Community, although only nine are official and some people think that that is too many.

The Commission is planning a census to find out more details. It is also planning centres in the Netherlands, Wales, Spain and France to document and promote minority languages and cultures. That will make the Commission very popular with the minorities, but not necessarily with national governments.

Falling figures

■ One statistic that attracts much less comment than it used to is the state of Britain's official reserves. That may be partly because there was an unexpected rise in December largely as a result of the first foreign currency receipts from the sale of the British water companies.

The underlying trend, however, is sharply downwards. Official reserves at the end of last month stood at $38,645m, compared with a near record $51,685m a year before. Not many years ago, such a drop would have been front page news and on most of the main news bulletins. Mrs Thatcher must be relieved that it no longer is.

Still, if you couple the fall in the reserves with the decline in the exchange rate, the picture does not look too good. The trade-weighted rate fell by more than 10 per cent in the course of last year. Without the use of the reserves to support it, presumably it would have fallen much further.

There is a theory that John Major, the new Chancellor, is much less keen on deploying the reserves in this way than Nigel Lawson, whom he succeeded at the end of October. British official statistics are too bare and the time too short for the theory yet to be proven.

"If you listen very carefully, you can hear the North Sea."

But the reserve figures have again become an indicator worth watching, not only by specialists.

Not many left

■ Congratulations, albeit belated, to Niger's President Ali Saibou. Running unopposed, he was last month elected to a seven-year term with more than 99 per cent of the vote. The official results said 94.65 per cent of Niger's 3.5m eligible voters cast ballots, with 99.6 per cent of them voting in favour of Saibou. There are not many countries left like that any more.

German rules

■ The finer points of the German Question are starting to cause headaches for corporate planners. The problem is this: should actual or potential subsidiaries in East Germany, which remains a sovereign state, report to the Eastern Europe department at headquarters, or, in the case of those companies which already have West German subsidiaries, should they report to the existing office in the other Germany?

According to the West German news magazine, Der Spiegel, the battle has already been fought out at Unilever. Originally, it was decided that the planned East German business should report to Rotterdam, but when Jürgen Schrader, the boss of West German Unilever, got to hear of this, he was not best pleased.

After hearing his arguments for why the East German subsidiary should belong to the Hamburg office in West Germany – essentially that a West German is likely to understand the position in East Germany much better than a Dutchman or a Briton – Rotterdam relented.

Lighter lines

■ A new selection of Poems on the Underground has gone up this week. These are the verses that tend to make travel on the London tube more civilised. London Underground provides 4,000 free advertising spaces and the programme is supported by such bodies as the British Council and various publishers.

The new batch is certainly catholic. It ranges from the anonymous 15th century song, "I have a gentil cock", through Walt Whitman and D H Lawrence to a contemporary Caribbean poet called Edward Kamau Brathwaite who has some striking lines beginning: "Summon now the kings of the forest."

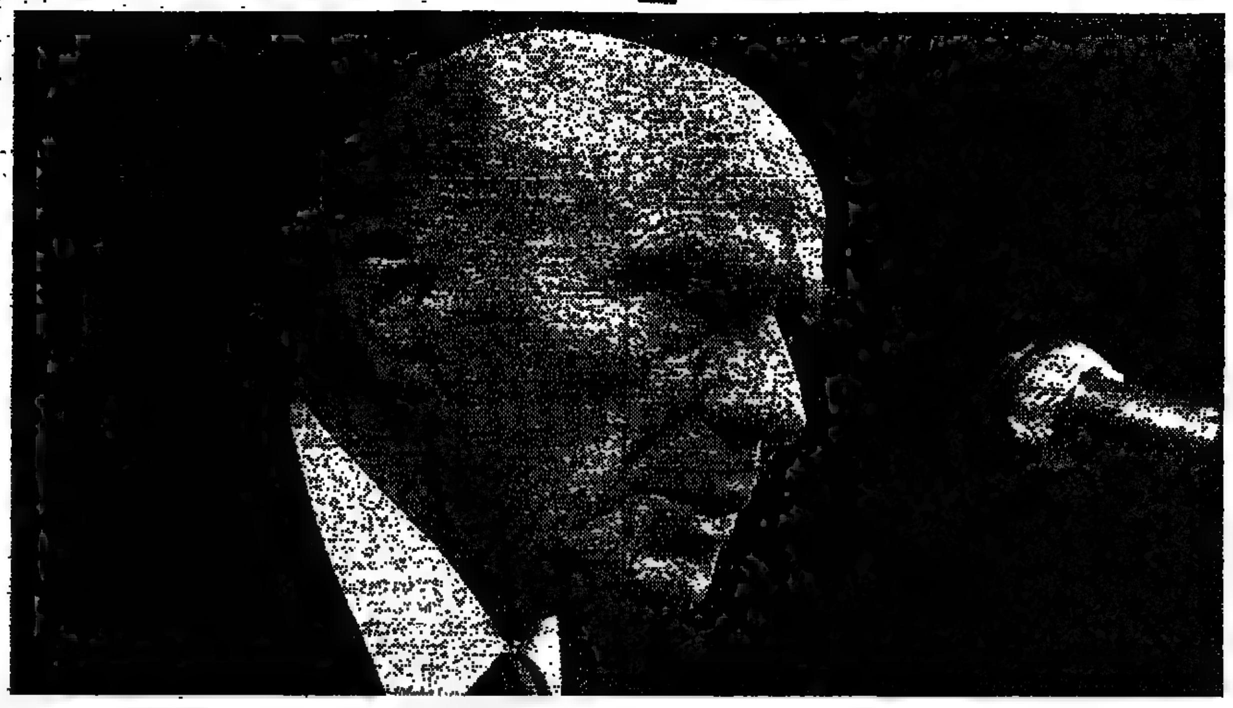
Poems on the Underground is seeking public subscriptions: posters of the poems may be obtained from The Poetry Society, 21 Earls Court Square, London SW5 or from the London Transport Museum.

Fair fight

■ Sign in the rear window of a Mini in Birmingham: "Hit someone your own size."

Guido Carli, Italy's Treasury Minister, discusses the means for an orderly convergence of European monetary policies

Co-ordination, not competition



The UK paper on European monetary union advocates a hands-off approach to financial and monetary integration. It claims that the liberalisation of financial markets will bring about more competitive pressures on central banks and financial intermediaries to provide stable and efficient means of payments, and that these competitive pressures are necessary to achieve the kind of monetary unification that private markets need: one characterised by low inflation and efficient financial systems.

The ultimate goals expressed by the document are to be shared by all European governments. The liberalisation of European capital markets will, however, inevitably make monetary management a more delicate task, and will significantly increase risks of instability. In particular:

- There is no example in historical experience of a stable regime of fixed exchange rates which co-existed with free capital movements and "competing" monetary authorities.
- Any practitioner in financial markets, and especially any central banker, knows that stability is achieved through the enactment of well defined, transparent, and consistent policies, and that – in their absence – serious disruptions are almost guaranteed. These financial disruptions bring substantial costs and are a powerful threat to stable exchange rates.

It is not "competition" among central banks that will bring about an orderly convergence of policies, it is "co-ordination" that will do it. The challenge, as set out in the Delors Report, is to create a framework for monetary policy co-ordination that fully respects the market mechanism and the objectives of price stability and financial markets efficiency.

The UK document argues that the changes brought about by Stage 1, the removal of capital controls, will have such profound and hard-to-foresee effects that it is dangerous to embark on sweeping institutional reforms before observing the effects of Stage 1. We agree with this point. In response to this observation, however, the UK Treasury advocates no changes in the operations of central banks.

How could a fixed exchange rate evolve into a monetary union in the absence of any efforts at setting coherent monetary policies among central banks? Never in history have fixed exchange rates co-existed with independent monetary policies and full international capital mobility. Capital controls have been a permanent and integral feature of fixed exchange rates.

The international gold standard is sometimes hailed as the one historical period where free financial markets co-existed with orderly international monetary conditions. It is also mentioned as an example of monetary liberalism to be followed by present-day Europe. Two observations follow.

First, countries that joined the gold standard, by subjecting the creation of the aggregate stock of money to fluctuations of newly mined gold, surrendered their monetary sovereignty to the maximum possible extent. Second, a careful analysis of the facts quickly reveals that during the gold standard controls were imposed, and *most often in emergencies. Therefore,* the threat of the imposition of controls could work as a deterrent against "too aggressive" speculation.

In 1847, 1857 and 1866 the Bank of England suspended Peel's Act – establishing the backing of notes issue with gold – thereby allowing itself to freely issue fiat money. While some of these crises were domestic in origin, the suspension of convertibility occurred also in response to "external gold drains." This has led many authors to conclude that the "game rules" of the gold standard were effective only in quiet periods.

The practice of controlling the market for monetary gold was followed more aggressively on the Continent. For example, the convertibility of banknotes into gold was not guaranteed by the Banque de France, but was left to its discretion. This allowed the Banque de France to "fine tune" the domestic money markets via changes in the discount rate much less frequently than its neighbours. Similarly, the Reichsbank often used moral suasion on domestic commercial banks to discourage conversions of notes into gold for the purpose of gold export. To say nothing of Banca Nazionale del Regno, the predecessor to Banca d'Italia.

After the Second World War, the *fragility of fixed exchange rates with* free capital mobility was very much in the minds of the builders of the Bretton Woods system. Article VI of the IMF Articles of Agreement allowed the International Monetary Fund to request countries with balance-of-payments difficulties to impose capital controls for a limited time, in order to economise on scarce reserve currencies. This rule reveals the awareness that free capital mobility would allow possibly very large capital flows, exclusively motivated by speculative purposes.

What happens when controls are removed? There is ample evidence that all three major historical experiences of fixed exchange rates among industrial countries (the Gold Standard, Bretton Woods and the European Monetary System, the EMS) worked asymmetrically, with a "centre" country pursuing its own monetary targets, and the other countries either fully accommodating the centre-country policies, or partly "leaning against the wind" with the help of capital controls. Capital controls imposed by countries at the periphery also help the centre country in the pursuit of its independent objectives. A removal of capital controls, when not accompanied by strictly coherent monetary policies, makes the life of *the centre country more difficult.*

This problem is evident in the recent developments of the EMS, as well as in the last stages of the Bretton Woods system. There is no – formal or informal – agreement to enforce the leadership of the centre country. In the absence of controls the centre country can find itself compelled to accommodate the policies of the other members of the fixed-rates agreement. This happened in 1968, when the European partners refused to accept a devaluation of the US dollar. It might also have been happening in the EMS since the spring of 1989, when disagreements on the appropriateness of correcting bilateral parities have been recorded.

The disagreements among industrial *countries* on the devaluation of the dollar exchange rate were just the dawn of the collapse of the Bretton Woods system. The current experience of the EMS bears witness to the increased strength of the system, but signs of emerging disagreements on the targets for monetary policy are appearing all the same. Any country resisting the devaluation of its currency, or asking for a revaluation, is well aware of the externality of fixed exchange rates: inflation can be exported to the neighbours.

These frictions are exacerbated by capital mobility, which quickly reveals and amplifies the effects of any divergence of policies. Capital mobility forces governments to choose, sometimes in a politically embarrassing way, between internal objectives and external constraints. In the face of these pressures, and in the short term, governments often "reclaim their monetary sovereignty" by changing exchange rates unilaterally, or imposing controls on payments systems of international financial flows, or loosening the links between domestic monetary policy and international financial markets.

In apparent disregard of these historical realities, the Treasury document even advocates the introduction of additional sources of instability. It suggests that nothing – not even perhaps legal tender rules – should stand in the way of full competition among national currencies, and that private use of the Ecu as a parallel currency could be beneficial in lowering transactions costs.

Encouraging the use of parallel currencies *and currency substitution* will add instability to the exchange rate mechanism of the EMS, and will quickly make existing monetary institutions too obsolete to deal effectively with rapidly evolving financial markets. The accumulated experience of many countries with currency substitution does not suggest that it has forced monetary authorities to adopt low-inflation stances but rather that it has brought about unprecedented swings in money demand, and difficulties with monetary management.

In summary, the liberalisation of capital flows will greatly weaken the performance of the exchange rate mechanism. Capital mobility and independent monetary policies are likely to bring about major strains to fixed exchange rates. If stable exchange rates are to be maintained, the liberalisation of capital flows has to be accompanied by substantial efforts of monetary authorities on two fronts: first, the coherent setting of monetary targets and continuous monitoring of individual countries' monetary policies, in order to ensure money supply paths that are consistent with fixed exchange rates. And second, the strong and well structured support of bilateral exchange rate parities to convince markets that stable exchange rates are here to stay.

Once embarked on Stage 1, governments are compelled to consider further integration of monetary policies or risk witnessing the collapse of a system of stable exchange rates in Europe. The decision on the timing of the *Intergovernmental Conference* taken by the European Council at Strasbourg points in the right direction, acknowledging that Stage 1 has to be followed by institutional phases to solve problems of inconsistent regimes in exchange rates, capital movements and monetary policy.

This is an edited version of a paper sent to the members of the EC's Council of Economic and Finance Ministers.

BOOK REVIEW

A warning of Armageddon

THE END OF NATURE
By Bill McKibben
Viking, £12.99

As we enter the final decade of the 20th century no doubt we can expect prophecies of doom to descend upon us just as there was wailing about an approaching apocalypse at the end of the first millennium.

So it is no surprise that a briskly selling American environmental work, The End of Nature, by Bill McKibben, has just been published in Britain with much hype.

The book is written in a racy style and is far more readable than the average solemn environmental tract. But it is based on a flawed thesis and sweeping, unsupported assertions.

McKibben argues that abuses already perpetrated mainly by the industrialised nations, particularly emissions of carbon dioxide which cause global warming, have altered the climate to such an extent that the natural world is doomed. We have started a chain reaction which is virtually impossible to stop.

"I believe that without recognising it we have already stepped over the threshold of such a change; that we are at the end of nature," he writes.

Like the reported death of Mark Twain, the obituary is somewhat premature. It will certainly come as news to the British-led international team *of scientists working as part of* the Intergovernmental Panel on Climate Change.

Some meteorologists associated with the project believe that the variables are so vast that it could be 10 years before they can even confirm whether global warming – the greenhouse effect – is upon us.

Yet according to McKibben the wild garden of nature has already been transformed into a greenhouse. Most western governments take the line that although the case for global warming is unproven, it is now so persuasive that it is wise to act before it is too late.

Launching the British edition of his book last week, McKibben drew back from the brink a little. No, he was not saying that the end of the world is nigh but that some of the atmospheric changes wrought by greenhouse gases such as carbon dioxide and methane seem to be inevitable.

But doubts and equivocation do not make bestsellers. He has produced an entertaining work which shrewdly catches the tide of public concern over the environment.

Elegiac pessimism over the lost Garden of Eden and guilt over Man's destruction of the planet are given quasi-religious overtones with reference to the Earth as "a museum of divine intent." It is a heady brew calculated to find favour with an American readership.

Like the fat boy in the Pickwick Papers, McKibben is intent on "making 'yer flesh creep." A rise of 3 or 4 degrees Fahrenheit could cause super hurricanes 50 per cent more powerful than the 200 mph Hurricane Gilbert which swept the Caribbean in 1988.

For good measure we are given the theory of John Hamaker, a retired engineer in the mid-west, who believes that the increase in carbon dioxide from fossil fuels will cause a new ice age with millions dying from famine.

There are brief references to the huge potential threat to the environment from the industrialisation of the Third World and the likelihood that China *will double its emissions of car*bon dioxide by the end of the century. But these problems are not examined in detail.

Instead, McKibben calls for a fundamental change of heart. What is needed is a move towards a simpler life away from the "inertia of affluence." He and his wife have begun to "prune and snip" their consumption and take bicycle rides on local roads rather than holiday trips by car.

The book comes at a time when a backlash has already started against the unquestioned assumption that we are faced with an environmental Armageddon. The concept has been challenged in a recent report from the George C Marshall Institute in Washington and by Professor Deepak Lal, Professor of Political Economy at University College, London. The simplistic metaphysical arguments by McKibben will provide further ammunition.

John Hunt

LETTERS

'Irresponsible campaign' for an EMS realignment

From Mr George Magnus.

Sir, Samuel Brittan's criticism of the Bundesbank ("Beggar my neighbour' at the Bundesbank," January 15) is unjustified and fails to recognise the underlying economic dynamics of the European Community. He presents a strong case as to why the Bundesbank wants a higher D-Mark, but the compelling case for a pre-Delors Stage One *revaluation of the D-Mark goes* much further. EC trade imbalances and capital flows into Germany (related to the opening up of Europe) have gone well past the point where we can look forward complacently to a stable European Monetary System. Indeed, contrary to Mr Brittan's assertion that a very modest realignment would represent an unnecessary setback to hopes for currency stability, I would argue that such a setback will be inevitable unless justifiable changes to EMS parities are implemented carefully. This may be to the chagrin of some European politicians and sympathisers but economic truths often are.

Those truths, apart from *Germany's own valid reasons* for preferring now to err on the side of a deflationary monetary policy, go back to the Plaza Accord in 1985 when the whole EMS was asked to perform a task with regard to the US dollar which only the D-Mark was suited to perform. Germany could withstand a 50 per cent appreciation of the D-Mark, having started with a strong trade surplus and low inflation. The rest of the exchange rate mechanism members were not so well endowed and became progressively less competitive not only in extra-EC trade but with regard to Germany too. These trends have become exacerbated by Europe's capital spending and 1992-related boom – which have suited the German economy well – and, more recently, by capital flows into the Federal Republic as the world prepares for major economic integration in Europe with Germany at the centre.

With Germany's current account surplus likely to reach 5 per cent of gross national product in 1990 and a vigorous reversal in Germany's long-term capital outflows, the Bundesbank is going to require a lot of persuading that its "solution" of a revalued D-Mark is wrong or irresponsible. On the contrary, if the EMS is to avoid conflict and stabilise in the first half of the 1990s, a reasonable (10 per cent) D-Mark revaluation will be needed to redress existing imbalances. Not to agree to such a move would, in fact, be more irresponsible.

George Magnus,
Chief International Economist,
Warburg Securities,
1 Finsbury Avenue, EC2

Unhatched egg

From Mr L.T. Smith.

Sir, I was discharged from the army in 1945 with a gratuity of a few hundred pounds – enough to buy a small cottage. I kept it as a nest egg and it is still there today, but would hardly pay for a night on the town. That is what inflation does to poor people's savings and why we should support the Chancellor in his struggle to maintain the value of money.

L.T. Smith,
23 Markham House,
Kingswood Drive,
West Dulwich, SE21

Difference between purchase price and fair value

From Mr Chris Goodwin.

Sir, Your leading article ("Accounting for goodwill," January 10) demonstrates neatly the real problem. The dispute over which of the two methods (amortisation or writing off against reserves) should *be used gets to the heart of* what a set of financial statements is intended to do.

You define goodwill as "the difference between the nominal value of a company's assets, as stated on its balance sheet, and the price paid for the company by somebody else." This is not correct. Goodwill is the difference between the purchase price and the *fair* value of the assets. The fair value will not be equal to the book value.

You seem to have fallen into the trap of treating the balance sheet as a valuation statement. *It is not intended to perform* this function, but much of the debate about accounting for intangibles such as goodwill and brands does not seem to recognise this. It is argued that goodwill should be eliminated immediately because it cannot be sold separately but that brands should be shown because otherwise the business is undervalued. The mistake is to treat the balance sheet as the valuation, which it is not.

It would be possible to include a statement of asset valuation in financial state*ments, but a balance sheet* produced under the historical cost convention does not fulfil this.

Chris Goodwin,
The Management Training Partnership,
14/15 Prebendal Court,
Oxford Road,
Aylesbury, Buckinghamshire

A second homes tax could pay for a rise in child benefit

From Ms Mary Campbell.

Sir, Samuel Brittan's article ("Family package for a budget," January 11) was excellent and timely. But in a separate taxation system taxing husbands for an increase in child benefit payable to wives would produce more problems than it would be worth.

I believe he (and the Institute for Fiscal Studies) may be over-estimating the revenue costs of taxing mothers for a big rise in child benefit. This is because separate taxation of wives is likely to result in a marked shift of ownership of assets (and "unearned" income) from husbands to wives, bringing more wives into the tax system.

There is another simple way of financing a big rise in taxable child benefit: a new tax on ownership of immovable property. Over time, the switch from rates to poll tax will result in even more inefficient use of Britain's housing stock than at present. A big rise in child benefit could be funded by taxing such property, either by concentrating on second homes (at a rate of, say, 5 per cent per annum of capital value) thus avoiding a tax on low income pensioners remaining in the family home; or on all home ownership at a much lower rate.

Mary Campbell,
6 Grange House,
Highbury Grange, N5

Other ways to solve the wage inflation problem

From Mr Peter Robinson.

Sir, Your leader ("Silly season for wages," January 12) observes that the problem of excessive wage inflation in the UK has come back to the top of the economic agenda. Despite 10 years of labour market "deregulation" and five pieces of legislation designed to reduce trade union power, Britain appears to have a worse unemployment/inflation trade-off than in 1979. This in itself suggests that those economists, including many of your writers, who have been pushing the idea of creating a more "flexible" labour market have a lot of explaining to do as to why that "flexibility" appears to have coincided with a worsening of the problem.

It is sad that the only solution to wage inflation that the FT can come up with is higher unemployment. Is there really no other alternative? On the same day your other leading article ("Sweden's fading consensus") advocated that that country too should abandon full employment. We still have much to learn from the way in which pay bargaining is co-ordinated in Sweden, and from the mistakes made.

Any nation which wants to call itself civilised must try to find a way to deal with inflation other than through high unemployment. It would be a start if the Trades Union Congress and the Confederation of British Industry were prepared to acknowledge formally that the dilemma exists and did not try to dodge the issue.

Peter Robinson,
Deputy Director,
Campaign for Work,
Tottenham Town Hall, N15

FINANCIAL TIMES
Wednesday January 17 1990

EC MONETARY DEBATE

Pöhl calls for independent European bank

By Peter Norman, Economics Correspondent, in London

Pöhl: gradual evolution

MR KARL Otto Pöhl, West German Bundesbank president, yesterday said that a future European central bank should be independent of politicians and in sole control of European Community monetary policy.

At the same time, Mr Robin Leigh-Pemberton, Governor of the Bank of England, warned that premature action to force the pace towards economic and monetary union could produce political and economic tensions between EC member states.

Although both central bankers called for a gradual evolution towards economic and monetary union (EMU) in the European Community, the thrust of their speeches was very different.

Mr Pöhl, delivering a lecture in Paris, outlined a European Central Bank System based clearly on the Bundesbank.

Mr Leigh-Pemberton, addressing a seminar in the Bonn suburb of Bad Godesberg, underlined that new institutions such as an EC central bank should only be considered once the "real economies" of the EC member states had converged in structure and performance.

Mr Pöhl said the future European central bank would have to be committed to achieving price stability and independent of political interference.

It should have far-reaching powers, including all decisions on interest rates, liquidity and money stock. Its responsibility for monetary policy would also embrace decisions on intervention in third currencies such as the dollar. It was vital, he said, that the bank should have a monopoly of money creation.

He said the establishment of an independent European central bank would be conceivable before the completion of political union in the EC, provided governments were prepared to surrender the requisite degree of sovereignty. He said that the system would have "an adequately democratic legal base" if it came into being as a result of an agreement between democratic governments.

Mr Leigh-Pemberton chose to concentrate on more immediate practical difficulties. The time for a common European currency when monetary policy would lose its distinctive national features was "still some considerable way off," he said. The exchange rate mechanism of the European Monetary System should be retained "and we should not lock our exchange rate irrevocably until our economies are much more homogeneous," he said.

Each EC member state would need to pursue the objective of price stability in its own way during stage one of the Delors programme towards EMU, he said. He repeated that for Britain to join the EMS exchange rate mechanism at present would place strains on the British economy and add to those in the exchange rate mechanism.

Analysis, Page 2

East and West agree on need for development bank

By Ian Davidson in Paris

THE establishment of a multinational European Bank for Reconstruction and Development came a step closer in Paris yesterday.

Delegates from 34 countries from East and West reached broad agreement in principle both on the early need for a bank, and the timetable for hammering out the details of its constitution.

No details of the new bank's structure were finally settled at the two-day meeting, which was primarily an opportunity for exploring the implications of this unprecedented undertaking to create a bank jointly owned by governments from East and West.

However, there was broad agreement that the primary purpose of the bank would be to promote the transformation of the countries of eastern Europe into competitive market economies.

Detailed presentations from the six east European countries of the current states of their economies were given to the delegates, together with the reform programmes which are being planned or implemented.

The French Government will circulate new written proposals within the next few days.

Experts from national capitals will meet during January in Paris in three working groups.

A second plenary session will then be held on March 10 and 11, and the charter of the bank should be ready for signature by ministers in the spring.

The bank's capital size is unlikely to be a major problem, according to Mr Jacques Attali, the economic adviser to President François Mitterrand, who chaired the meeting.

GE to share costs of new big jet engine

By Paul Betts in London and Anatole Kaletsky in New York

GENERAL ELECTRIC of the US is seeking to spread the $1.2bn-$2bn cost of developing the world's largest commercial jet engine by negotiating risk-sharing partnerships with European and Japanese aircraft engine manufacturers.

Snecma, the French state-owned aircraft engine manufacturer and a long-standing GE partner, has already agreed to take a 25 per cent share of the GE90 big fan engine programme unveiled by the US group yesterday.

Mr Brian Rowe, head of GE's aircraft engine division, said yesterday that MTU, the West German aero-engine company, was planning to become a risk-sharing partner in the project.

A memorandum of understanding has been signed between GE and MTU but the size of the West German stake has yet to be agreed.

He confirmed that GE was negotiating with a Japanese company to join the programme as a risk-sharing partner. Overall, GE plans to retain a 60 per cent stake in the project.

Mr Rowe said Volvo of Sweden and Fiat of Italy were expected to participate but not as risk sharing partners.

The announcement of the engine, which GE expected to be produced both in the US and France, has been long awaited by the international aerospace industry. It is expected to unleash a fierce battle for dominance of the new market for large wide-body twin engine jets.

Rolls-Royce of the UK and Pratt and Whitney of the US are planning big thrust variants of their current engine families as they compete for a slice of a new engine market GE estimates at $50bn-$100bn.

Mr Rowe said GE expected a market of as many as 2,500 large twin-engine aircraft in the next 20 years.

Boeing, the West's largest commercial aircraft manufacturer, is expected to launch its Boeing 777 wide-body aircraft programme later this year, while the European Airbus consortium is already considering plans to develop larger derivatives of its new A-330 twin engine wide body jetliner.

GE believes it has stolen a march on its two other engine rivals by developing an all-new engine for the big fan engine market. However, Rolls-Royce and Pratt and Whitney claim their planned derivatives of existing engine families will compete effectively against the GE90.

The GE engine will provide up to 95,000lb of thrust to power the new generation of wide-body jets. It will have a 120-inch diameter fan and GE claims it will provide airlines with a 10 per cent improvement in fuel consumption compared with current high bypass turbofan engines.

Rolls-Royce, for its part, claims it is already ahead of GE in the market for big thrust engines with the development of the Trent, a high thrust derivative of its RB211-524 family of engines. These have a 65,000-80,000lb thrust range but Rolls-Royce claims it can develop a more powerful version on the existing Trent core to match the GE90.

Pratt and Whitney is working on a big thrust derivative of its PW4000 engine series. Financial details of the partnership with Snecma and MTU were not disclosed. However, GE said Snecma would be primarily responsible for the design of a completely new 10-stage compressor.

Occidental awards oil contracts for N Sea

By Steven Butler in London

OCCIDENTAL Petroleum yesterday announced awards of £90m ($149m) of contracts for a North Sea oilfield development far in advance of seeking required UK Government approval.

The early award of contracts was made to escape the effects of a steadily tightening market for North Sea-related construction and services. The contracts, for fabrication and installation of a £350m production platform for the Saltire field, formerly known as East Piper, will create about 1,000 jobs in the UK. Production is to start in 1992.

The field, about 120 miles northeast of Aberdeen, is in the vicinity of Occidental's Piper Alpha platform, which was destroyed in a series of explosions in July 1988, killing 167 persons.

Although the series of new North Sea oilfield developments announced over the past year, with more expected, to come has been welcomed by industries serving the North Sea, it has boosted fears among operators about possible capacity constraints at a time when many older platforms need extensive refurbishment and safety improvements.

The Occidental orders are one of the signs of companies seeking to jump the queue in order to assure that project deadlines can be met by booking space in advance.

"Formal approval for the £350m Saltire development will be sought from the Department of Energy later this year. We have awarded these contracts now to ensure availability of our main contractors," said Mr John Brading, Occidental's UK chairman.

The contract for fabrication of a 15,000-tonne jacket and 5,300 tonnes of piles has been awarded to the McDermott yard in Ardersier, Scotland. Press Offshore, in Tyne and Wear, north-east England, has won contracts for fabrication of the production, utilities and drilling deck (7,000 tonnes) and for the drilling substructure, skid base and flare stack. Heerema, which owns and operates heavy-lift barges, is to install the platform.

Mr John Wood, chairman of the UK Module Constructors' Association, which represents the fabrication yards, said yesterday that Britain's fabrication yards were unlikely to run short of capacity, in part because many anticipated gas projects would be delayed until gas sales contracts could be signed.

He noted that, given the large number of petrochemical and other construction projects, UK engineering capacity could be in short supply, and that lead times for supply of equipment were lengthening significantly. Shortages of skilled labour were also showing up.

The offshore industry is concerned that the shortage of labour may lead to disputes over wages and working conditions this year, and some leading North Sea operators are understood to be carefully scheduling the introduction of work programmes to avoid capacity problems.

World's best-selling cognacs

Brand	Parent	Cases (9 litres)
Hennessy	LVMH	2.8m
Martell	Seagram	1.7m
Rémy Martin	Rémy Martin	1.7m
Courvoisier	Allied-Lyons	1.5m

Source: Impact International 1989 estimates

GrandMet to buy stake

Continued from Page 1

stay out of the executive management of the Rémy Martin and Cointreau group, nor would there be any immediate joint ventures.

GrandMet lost the FFr5.25bn ($915m) takeover battle for Martell to Seagram at the end of 1987; and with the two other major cognac brands, Hennessy and Courvoisier, in the hands of two competitors, Moet Hennessy Louis Vuitton (LVMH) and Allied Lyons, GrandMet sees the move as "a strategic investment."

Rémy Martin, joint second among the cognac brands with Martell, sells about 1.7m cases a year. Volume sales grew last year by an estimated 10 per cent with particularly strong distribution in the Far East. Its portfolio also includes Krug and Piper-Heidsieck champagnes and other top wines.

The 17-year-old family quarrel at Remy Martin stemmed from the division between two sisters - Mrs Anne-Marie Hériard-Dubreuil and Mrs Geneviève Cointreau - of the twin cognac houses of Rémy Martin and Frapin, a once famous producer which has now dwindled into obscurity.

Since the death of their mother in 1978, the feud has worsened: arguments over her will sparked off the lengthy supreme court legal battle between the two families.

The final straw for the Cointreau family appears to have been Rémy Martin's agreement, announced in November, to merge with Cointreau et Cie.

The deal envisaged transferring the 51 per cent stake in Rémy Martin held by Pavis, the Hériard-Dubreuil holding company, to Cointreau et Cie, leaving Pavis with a majority stake in the latter. Mr Max Cointreau's family also offered to transfer their Rémy Martin shares to Cointreau et Cie, which they proposed should be floated on the stock exchange.

But this idea, which would have reduced Pavis's stake to less than 50 per cent, was rejected.

WORLD WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	Ma			Dubrovnik	S	12	54	Malta	S	15	59	Rhodes	S	[illegible]	[illegible]
Algiers	F	15	59	Edinburgh	R	11	52	Manchester	F	12	54	Rio de J'o	F	[illegible]	101
Amsterdam	C	11	52	Faro	S	15	59	Manila		–	–	Rome	S	10	50
Athens	S	12	54	Florence	S	7	45	Melbourne	C	14	57	Salzburg	R	3	37
Bahrain	S	18	81	Frankfurt	Dr	7	45	Mexico City	C	[illegible]	[illegible]	San Francisco	C	10	50
Bangkok	F	33	91	Funchal		–	–	Miami	S	[illegible]	72	Seoul	S	1	34
Barcelona	S	10	50	Genova	S	[illegible]	45	Milan	F	[illegible]	[illegible]	Singapore	R	28	82
Beirut		–	–	Gibraltar	C	15	59	Montreal	C	-7	19	Stockholm	R	[illegible]	[illegible]
Belfast	R	[illegible]	[illegible]	Glasgow	R	11	52	Moscow	Sn	-8	18	Strasbourg	C	[illegible]	[illegible]
Belgrade	[illegible]	-2	28	Guernsey	C	10	50	Munich	[illegible]	4	39	Sydney	C	[illegible]	[illegible]
Berlin	C	11	52	Helsinki	Sn	[illegible]	27	Nairobi	F	26	79	Taipei		–	–
Biarritz	[illegible]	12	54	H Kong	C	[illegible]	57	Naples	S	11	52	Tangier	S	17	[illegible]
Bombay	R	[illegible]	[illegible]	Innsbruck	R	2	36	Nassau	F	24	75	Tel Aviv	F	[illegible]	[illegible]
Bordeaux	[illegible]	12	54	Inverness	R	[illegible]	45	New Delhi	S	20	68	Tenerife	C	18	64
Brussels	C	[illegible]	[illegible]	Islamabad		–	–	New York	S	[illegible]	[illegible]	Tokyo	Sn	1	34
Budapest	F	-2	28	Istanbul	S	7	45	Nice	S	13	55	Toronto	Fg	[illegible]	[illegible]
B. Aires	F	35	95	Jakarta	R	30	86	Nicosia	S	17	63	Tunis	F	[illegible]	[illegible]
Cairo	R	17	63	Jersey	[illegible]	10	50	Oporto	S	12	54	Valencia	S	12	54
Cape Town	S	[illegible]	[illegible]	Jo'burg	S	26	79	Oslo	[illegible]	[illegible]	[illegible]	Venice	[illegible]	5	41
Caracas	C	27	81	Lima	F	26	79	Paris	C	[illegible]	[illegible]	Vienna	C	[illegible]	[illegible]
Casablanca	S	17	63	Lisbon	S	11	52	Peking	F	2	36	Warsaw	C	[illegible]	[illegible]
Chicago	F	5	41	London	R	12	54	Prague	F	7	45	Washington	[illegible]	1	34
Cologne	[illegible]	11	52	Los Angeles	F	[illegible]	[illegible]	Reykjavik	F	[illegible]	[illegible]	Zurich	F	[illegible]	41
Copenhagen	S	9	48	Luxembourg	Dr	7	45								
Corfu	S	15	59	Madrid	S	7	45								
Dallas	[illegible]	17	63	Majorca	S	14	57								
Dublin	C	12	54	Malaga	F	15	59								

Readings at mid-day yesterday
C-Cloudy Dr-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Brussels initiative to harmonise accounts

By David Waller in London

A NEW initiative to harmonise accounting standards in the European Community is likely to be announced tomorrow by the European Commission.

The Commission wants to make it easier for investors and other users of accounts to compare the performance of companies in different parts of Europe.

The form has yet to be decided, but it is due to be discussed at a two-day conference hosted by the Commission in Brussels starting today. It will be attended by 125 delegates, including representatives from all member governments.

The Commission believes that the Fourth and Seventh Company Law Directives, tackling basic areas of accounting, have achieved a degree of harmonisation in, for example, the way accounts are presented from country to country. But the Commission's stance is that directives take too long to implement, are not comprehensive and allow too much freedom to member states.

Confusion is worsened by a conflict between German-style accounting, based on tax requirements and set down by law, and the flexible Anglo-Saxon approach, which requires that accounts are "true and fair" but which critics say is too lax.

The Commission last year asked Professor Anthony Hopwood of the London School of Economics to write a paper exploring options for the next stage of harmonisation. This paper, to be presented at the conference, identifies three possible mechanisms:

- A European accounting forum. This would not be an accounting regulator, but simply an association of national standards-setting bodies. The rationale would be to improve communications between countries and allow changes to filter down through national bodies.
- A European technical standards-setting organisation. This would be like the Financial Accounting Standards Board (FASB) in the US: independent of government but partly financed by it. This body would have responsibility for promulgating European-wide standards.
- The development of the EC's existing accounting institution, namely the Contact Committee of officials established by the Fourth Directive. The idea is to create a technical sub-committee of the Contact Committee, which would consist largely of senior representatives of national accounting standard-setting agencies.

Prof. Hopwood recommends the third option, the development of existing EC institutions. This will certainly be opposed by the UK, which has written to Brussels in favour of the Accounting Forum. West Germany is thought to be against any new initiative.

The Fourth Company Law Directive, covering basic accounting, was introduced in 1978 after 15 years of debate, and has yet to be incorporated into the law of several member states. The Seventh, which deals with consolidated accounts, also had a long period of gestation.

London banks shed jobs

Continued from Page 1

In London, the business will operate under the name Citicorp and will employ about 100 people. CSV's asset management and options businesses are unaffected by the cuts.

Citicorp's withdrawal is the largest since Morgan Grenfell stunned the City of London by making 450 people redundant just before Christmas 1988. Since then, several smaller firms have pulled out of the market but not enough to make a noticeable difference

CSV was formed in 1984 as part of a plan by Citicorp to build a global equities business. Scrimgeours was voted one of the top UK stockbroking houses and Vickers da Costa a leading dealer in the Far East.

Since then, however, the business has been in steady decline. Mounting losses forced Citicorp to pare the business until it became too small to hold its own.

THE LEX COLUMN

Warning tremors from Tokyo

It would be easy to dismiss the recent 5 per cent fall in most of the world's equity markets as an overdue correction were it not for the worrying behaviour of Tokyo, the biggest market of them all. For months it has ignored the symbiotic relationship between Wall Street and London. It was Tokyo's modest reaction after the 1987 and 1989 October market breaks which did so much to bolster faltering confidence in global markets. But what happens to the rest of the world if the recent decline in an overvalued Tokyo market turns into a rout? It is the sort of nightmare which explains why the rest of the equity markets are so twitchy at present.

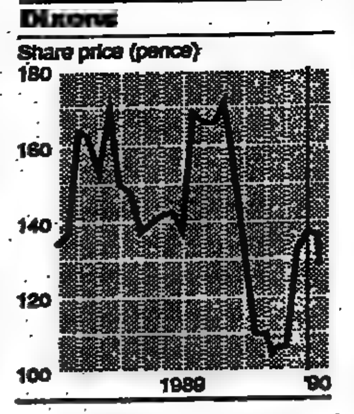
The recent correction in Japanese equities can be blamed on the sharp drop in the local bond market, where yields have jumped by close to 100 basis points since Christmas. Although bond markets worldwide have been performing terribly, the deterioration in the traditional bond/equity yield relationship has been far more pronounced in Japan than elswehere. On this basis Tokyo looks even more overvalued than normal. Throw in political uncertainties ahead of next month's elections and talk of another rise in official interest rates to help the yen, and it is possible to be reasonably bearish about the short-term outlook.

But this does not necessarily have to be bad news for other equity markets, especially if it means that the Japanese are so unenenthusiastic about their own markets that they continue to funnel cash into places like West Germany. The big imponderable is whether factors such as a weak yen or increased concern about Eastern Europe will trigger a repatriation of Japanese money from overseas markets. If it did, the recent correction in global equity markets would be only the beginning.

Dixons

Yesterday's mere 8p fall in Dixons' share price to 128p looks a trifle sanguine. The competition authorities' case against the merger seems too formidable to leave much room for argument. If the bid is blocked there is no obvious alternative buyer; none, at any rate, to whom the business would be worth as much as it is to Kingfisher. On fundamental grounds, despite the market's second thoughts on the strength of Dixons' profits forecast, it is hard to see the

Dixons



shares higher than 120p at best.

The OFT's case rests not on the share which would result in the electrical goods market overall, but on the concentration of power in specific products and in the faster-growing out-of-town market. In the absence of serious competition, it seems obvious that 30-40 per cent market shares in microwaves and personal stereos would lead to better terms from suppliers without any obligation to pass them on to customers. Nor is it obvious what Kingfisher can offer by way of plea-bargaining, since the benefits of quasi-monopoly are at the heart of the strategy. If denied Dixons, Kingfisher will doubtless look elsewhere. But that is probably in the share price already, provided the target is not too unexpected.

GrandMet

The securing by Grand Metropolitan of a strategic stake in the new Remy Martin/Cointreau combine looks a definite coup. The details are still sketchy, but it appears that GrandMet will end up with just over 20 per cent of the merged business at a net cost of around £100m, on terms which will ensure no dilution from the outset. Though equity accounted, this will be a passive investment. But cognac and champagne are two obvious gaps in GrandMet's drinks portfolio; and though its distribution in the Far East, for example, is now run jointly with Seagram, it would doubtless aim to profit by Remy Martin's strong presence in the region in the long run.

Elsewhere in the GrandMet empire, it looks as if final preparations are being made for the swap of its breweries for Courage's pubs. This seems the obvious inference from the steps taken yesterday by Elders to take its pub joint venture back into full control. The cost of this to Elders will presumably be offset by the widely rumoured placing of its stake in Scottish & Newcastle. For GrandMet, all this amounts to a typical burst of hyperactivity. But there are no grounds for criticising the result: further extension into drinks and retailing, precisely as promised.

Vickers

The interesting thing about yesterday's broadside from Vickers against Sir Ron Brierley, its 17 per cent shareholder, was its timing. Ideas about breaking up Vickers to release Rolls Royce Motors have been around since Saul Steinberg briefly surfaced as a shareholder in 1985. Sir Ron's ambitions have been fairly obvious for some time, even though he almost certainly needs a third party to do the job; so one wonders why Vickers has suddenly taken public umbrage. The probable answer is that this is a highly sensitive time, given the immediate need to deliver prototypes of the Challenger 2 tank and longer term doubts about the British Army's needs. More generally, as its purchase of the Ross Catherall aerospace business showed, Vickers wants to find new niches with its £107m cash pile.

Hence, short-term, one cannot see Vickers' shares rise on fundamentals much beyond their current rating of 9.5 times 1989 earnings. Hence, presumably, Vickers's eagerness to strike first in any propaganda war. But whether or not we see open hostilities, the decisive issue is how much of Rolls Royce Motors' value is coming through to shareholders. On that, Vickers is not saying enough.

Isosceles

Without knowing the history, one could reasonably presume the worst from Isosceles' first quarterly figures: an after-tax loss of £30m on sales of £921m, negative net worth and nearly £1bn of borrowings. But when someone whispers that this is one of those retail leveraged buy-outs once so popular among the bankers, it suddenly begins to make sense. Everything is said to be going according to plan. While 3.1 per cent annual sales growth is disappointing, interest costs have been capped and gross margins are not suffering. This is one of the very few retailing LBOs in the UK which still seems to make sense.

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INSIDE

Campeau casualties count their pennies

The US investment bank First Boston had an unsecured exposure of $429m in the bankruptcy of Federated Department Stores, the US retailer, it was revealed yesterday. First Boston's position as Federated's biggest unsecured creditor came as no surprise to the markets, but the size of the claim suggested that First Boston's losses in the bankruptcy could well exceed previous estimates of less than $50m. The collapse of the US retailing empire controlled by Mr Robert Campeau (left), the French-Canadian entrepreneur, has also hit the Reichmann brothers of Toronto. The brothers, who have long been admired for their ability to spot a good investment, now face a rare setback. Their holding company, Olympia & York, consistently backed Mr Campeau's highly-leveraged acquisition of Allied Stores and Federated Department Stores. **Page 26**

Importance of a good breakfast

When any of the 350 employees at Glaxo's headquarters have a birthday, Dr Ernest Mario, the group's chief executive, invites them to have breakfast with him. Dr Mario has established a relaxed, easy-going style since his appointment last May, and his morning ritual has so far survived a substantial programme of cost-cutting which he is introducing into Britain's biggest drugs company. Yesterday, the 51-year-old American gave a wide-ranging account of his hopes for Glaxo and of the cuts which mainly affect research and development and administration. **Page 33**

Trying to stop the rot

For years, the Dominican Republic's agriculture has been in decline. But the recent move to exporting pineapples produced in the Cevicos region could stop the rot. The shift away from traditional crops to, not just pineapples, but also raisins, tomatoes and even flowers has been forced on the Caribbean republic by the adverse effect on the economy of repeated problems with the sugar, coffee, cocoa and tobacco sectors. Canute James looks at the changes in farming practices. **Page 34**

Greatness thrust upon it

The outstanding feature in European stock exchange volume last year was the virtual doubling of throughput in West Germany. Much of last year's growth came in December alone. It was born of history in the making, as the barriers between eastern Europe and the West were torn down. Japanese, British and American investors were faced with an economically strong, fundamentally cheap market, hosting a once-in-a-lifetime political opportunity. William Cochrane reports. **Page 46**

Market Statistics

Companies in this section

Chief price changes yesterday

FRANKFURT (DM)				PARIS (FFr)			
Rises				**Rises**			
Beiersdorf	710	+	12	Raffinage	174	+	6.1
Falls				**Falls**			
AEG	305	−	13	Casino	132.8	−	5.9
Karstadt	672	−	15	Carus	43.7	−	1.9
Kaufhof	670	−	20	GR Victoir	1295	−	97.1
Lahmeyer	850	−	38	Scoa	7.6	−	1.4
Schering	761	−	32	UCB	226	−	12.3
NEW YORK ($)				**TOKYO (Yen)**			
Rises				**Rises**			
Georgia Gulf	44	+	1½	Kyowa Elec.	1230	+	200
Hilton Hotels	78⅛	+	½	Shibusawa	1710	+	180
Intel	37½	+	2	Taito	1760	+	160
Subaru of Amer.	8⅛	+	1	Utoku Express	4300	+	380
Falls				**Falls**			
Austria Fund	24¼	−	½	Nissho Iwai	1040	−	110
Merck	73⅛	−	⅛	Yamaguchi Bank	1610	−	170

LONDON (Pence)							
Rises				**Falls**			
British Land	425	+	37	Brit. Aerospace	546	−	5
Berisfab	688	+	5	Brit. Airways	210	−	5
Chelsea Man	120	+	23	Dixons Grp.	128	−	8
Fisons	339	+	7	Dowty	230	−	5
Hunterprint	190	+	25	Grand Met.	615	−	11
IMI	227	+	2	Hanson	228	−	6
Marina Devs.	485	+	78	Racal Telecoms.	358	−	12
Micro Focus	493	+	22	Redland	585	−	13
Midland	370	+	6	Tarmac	249	−	8
Siebe Grp.	485	+	7	Wellcome	738	−	22
Sun Alliance	328	+	7				

GrandMet may swap assets with Elders

By Chris Sherwell in Sydney and **Philip Rawstorne** in London

ELDERS IXL, the Australian brewing-based multinational which owns the Courage beer group in the UK, is poised to re-acquire full control of the 5,000 Courage pubs in a prospective £250m ($400m) deal announced yesterday.

This is a possible prelude to an asset swap with Grand Metropolitan, in which the British drinks and foods group would take the pubs while its own breweries would pass to Elders.

Such a deal is one of the options being discussed by GrandMet, whose chairman, Mr Allen Sheppard, has said he intends to settle the future of the company's brewing interests by the spring. GrandMet currently brews Foster's, Elders' leading lager brand, under licence in the UK.

The Elders move follows legislative changes resulting from last year's Monopolies and Mergers Commission report on the UK brewing industry. Those changes restrict tied pub ownership and oblige brewers to concentrate on either production or retailing.

The key feature of the transaction proposed yesterday is the prospective dissolution of Elders' 50-50 joint venture with Hudson Conway, the Australian investment group. Known as Pubco, it was set up after Elders acquired Courage in 1986 and involved a novel sale-and-leaseback arrangement.

Elders said it had acquired a call option, exercisable any time up to December 6 1990, to buy Hudson Conway's 50 per cent holding in Pubco for £250m-£260m. The consideration would be in redeemable non-voting preference shares in the Courage group.

Although City analysts believe a GrandMet deal with Courage is the front-runner, the UK group is understood to be talking to others interested in acquiring its brewing operations. These are believed to include Anheuser-Busch, the leading US brewer, whose Budweiser brand is distributed in the UK by GrandMet.

For Elders, the Hudson Conway deal on its own would bring the Courage pubs back on to its balance sheet – reversing its original intention in setting up Pubco, and coming at a time when it is even more heavily borrowed than before. But it says the call option gives it flexibility when the UK brewing industry is undergoing substantial changes.

Trevor Humphries

Elders IXL chairman John Elliott outside one of the Courage pubs at the centre of the prospective deal announced yesterday

Vickers fires salvo at Brierley and denies plan for demerger

By Nick Garnett and Ray Bashford in London

IEP SECURITIES, the UK investment vehicle of New Zealand businessman Sir Ron Brierley, has discussed with Sir David Plastow, chairman of Vickers, the possibility of demerging the businesses of the diversified British engineering, defence and luxury car group.

Mr Stuart Mitchell, head of IEP, which has a 17.25 per cent interest in Vickers, said the discussion took place late last year. Mr Mitchell said Sir David did not rule out "an unbundling" of Vickers which includes the Rolls-Royce car company, tank building and medical and marine engineering.

Mr Mitchell quoted Sir David as saying: "We have thought it out [a demerger] and if we thought it would enhance shareholder value we would do it."

Sir David confirmed that the discussion had taken place but had been misunderstood. Vickers was not against the principle of divestment but had no plans to break up the company. "You would need a different management for that," he said.

The first public sign that the shareholding of IEP – which wants to see Rolls-Royce split out from Vickers – has unsettled the UK group came yesterday with a letter from Sir David to Vickers' shareholders. The letter said the stake, raised from 9 per cent last summer, was against the best interests of Vickers and its shareholders.

"We have not been rattled in the classic sense of the word," Sir David said. "But we do not intend to sit back and see creeping control. We are just trying to inform shareholders of the position. This is not Rambo Plastow."

His letter said uncertainty created by the presence of "a large destabilising overseas holding" was not helpful to Vickers when the UK Government had still to make a decision about the replacement of the British Army's Chieftain tank. Vickers is developing the Challenger 2 tank but faces competition from General Dynamics of the US.

Sir David also raised the issue of the Rolls-Royce name, which is licensed to the Rolls-Royce Motor Cars division of Vickers from Rolls-Royce, the aero-engine maker. Foreign control of Vickers could result in the termination of that licence, he said.

IEP says its Vickers stake has been acquired at an average price of "slightly under" 200p, compared with yesterday's closing price of 205p, down 1p.

Lex, Page 20; Details, Page 31

Citicorp makes extra $1bn bad debt provision

By Anatole Kaletsky in New York

CITICORP, the biggest US bank group, yesterday acknowledged further losses on its huge Third World loan exposure, setting aside an extra $1bn of reserves against possible loan losses in the less developed countries.

The bank also said it was providing $68m for the costs of scaling down and restructuring its securities operations in the UK.

As a result of these provisions, the bank reported a net loss of $784m or $2.52 share in the fourth quarter, compared with a profit of $747m or $2.19 last year.

For 1989 as a whole, Citicorp reported a profit of $498m or $1.16 a share, compared with a profit of $1.86bn or $5.36 the year before. The 1988 profits were artificially boosted by the bunching of interest payments from Brazil.

Citicorp's LDC reserving decision came as a surprise, given its refusal to join other major US banks which established big LDC provisions last summer. But it had limited market impact, since yesterday's announcement implied that Citicorp remained far more optimistic than other leading US and European banks about the prospects of receiving debt repayments from the Third World.

After the $1bn provision announced yesterday, Citicorp said its total reserves for possible credit losses in developing countries had risen to $3.3bn. This was equivalent to 38 per cent of its $8.6bn medium and long-term exposure to troubled Third World countries which had rescheduled their debts.

In the third quarter of last year, other leading US banks established reserves against their troubled LDC exposure, ranging from 44 per cent at Chase Manhattan to 100 per cent at J P Morgan.

Citicorp's decision to "nibble at the bullet" of its Third World lending problems, as one analyst put it, did not excite Wall Street. The group's shares fell $¼ to close at $26.

In a typical reaction, Mr Norman Jaffe of Fox-Pitt Kelton called it "a step in the right direction," but noted that J P Morgan had "set a new benchmark" with its 100 per cent LDC reserves and that anything substantially less was now seen as "dubious" by investors.

He added that the size of the $1bn reserve had probably been limited by Citicorp's determination to avoid having to issue new equity in current adverse market conditions.

Citicorp executives said that the bank had decided not to follow other banks in setting aside reserves last summer because of uncertainties about the prospects for interest payments from Brazil and the outcome of the Brazilian election.

Now that Brazil's future had been settled and no interest payments had been received from the country, the bank was in a position to make a better judgment about the possibility of future losses.

Citicorp said that its common equity had been reduced to $8.2bn or 3.6 per cent of total assets by the big quarterly loss announced yesterday. But the bank said it would be able to rebuild its capital ratios to comfortable levels during the course of 1990, through retained earnings and asset sales. Among other things, Citicorp was expected to move even more aggressively to securitise and sell its huge credit card and consumer mortgage portfolios.

Other banking results, Page 24

Profits at TVS hit by losses at MTM

By Raymond Snoddy in London

TVS Entertainment, the UK independent television company, yesterday announced sharply reduced profits because of losses at its US acquisition MTM, the production company with the miaowing kitten as a logo.

Mr James Gatward, TVS chief executive, unveiled pre-tax profits of £13.7m ($21.9m) for the 12 months to the end of October compared with £26.1m last year.

The "regrettable decrease is due to the loss incurred by MTM," Mr Gatward said. There was also a £3.2m exceptional item to pay for cutting staff by 140.

MTM, best known for such programmes as Hill Street Blues and St Elsewhere, came under pressure because of a softening in the US secondary syndication market – the sale of former network shows to independent stations. The cancellation of two network shows and the disappointing performance of a feature film added to the costs.

TVS, which holds the ITV franchise for the south and south-east of England, lost £7.3m on US production, largely MTM.

TVS Television, however, continued to perform well. Its contribution to trading profit increased by 15.9 per cent to £28.4m, and net advertising revenue at £182.1m ranked TVS as third largest of the ITV companies in terms of advertising revenue. Turnover, at £281.9m, was up by 26.1 per cent.

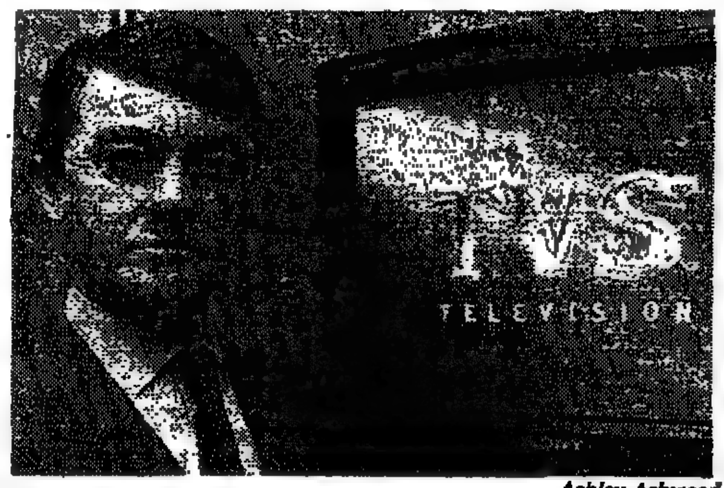
Mr Gatward gavesome reassuring news about MTM. A revaluation of the MTM library, one of the main assets in the original $320m acquisition, would not lead to write-offs.

Mr Gatward confirmed publicly for the first time that he was seeking a new strategic investor in MTM who could buy up to 49 per cent of the US company. A 10 per cent stake in TVS, in the name of Mr Arthur Price, former president of MTM, could also be part of such a deal. Under an agreement with Mr Price, TVS can nominate to whom the 10 per cent stake goes and gets most of the money from the sale.

After a tough year, Mr Gatward said: "The new shows have boosted everyone's morale."

As a result of the immediate problems, earnings per share fell to 11.9p from 37.6p.

The board will not decide on a final dividend until April because the company is changing its year-end from October to December.



Ashley Ashwood

James Gatward: confirmed publicly for the first time that he was looking for a new strategic investor in MTM.

US urges halving of AIDS drug dosage

By Peter Marsh and Vanessa Houlder in London

THE US Food and Drug Administration said yesterday that the recommended dosage for Retrovir, Wellcome's anti-AIDS drug, should be halved to 0.6 grams a day. The announcement coincided with the UK drugs company's annual meeting, where its pricing of Retrovir (or AZT), the only drug licensed to treat AIDS, came under fire.

Wellcome also announced that Sir Alistair Frame, chairman of RTZ, would succeed Sir Alfred Shepperd as chairman. Mr John Robb, deputy chief executive, will take over as chief executive.

Analysts said the FDA's recommendation was unlikely to make much difference to sales of Retrovir, as many doctors, especially in the US, were already using lower doses.

Reduced doses could expand the overall market because costs to individual patients fall and more people are capable of taking Retrovir without suffering the unpleasant side effects associated with high doses. Wellcome shares closed 22p lower at 738p.

Stormy meeting, Page 31

Kingfisher bid for Dixons goes before monopolies commission

By Maggie Urry in London

The £568m ($940m) takeover bid from Kingfisher, the stores group, for Dixons, the electrical retailer, has been referred to the Monopolies and Mergers Commission by Mr Nicholas Ridley, the UK Secretary of State for Trade and Industry.

The reference was in line with advice from Sir Gordon Borrie, the director general of Fair Trading. The DTI said the bid was referred because "there are possible effects on competition in the UK market for the retail of electrical goods which deserve investigation by the Commission."

Kingfisher's bid automatically lapsed as a result of the reference. The Commission has been told to report by April 27. If it finds that the merger would not be against the public interest, Kingfisher could then bid again.

Mr Nigel Whittaker, a director of Kingfisher, which owns the Woolworth variety store chain, Comet, the electrical goods retailer, Superdrug the drugstore chain and B&Q the do-it-yourself retailer, said yesterday "we think we have got a strong case which we will put vigorously to the Commission." Mr Whittaker said that buying Dixons "was an option not a necessity."

Stanley Kalms: Dixons' chief

Mr Stanley Kalms, Dixons' chairman, said "we believe that the merger of Kingfisher and Dixons would be seriously detrimental to the public interest." He said the group would now get back to "business as usual."

The referral seems to have been prompted by a number of concerns:

- that the combined group would have close to 25 per cent of the market, if rental is included, and this would be more than four times the market share of its nearest rival;
- that the combined group would have a market share of between 30 and 40 per cent in certain product groups;
- that the merged company would have between 70 and 80 per cent of sites in out of town locations, which is the fastest growing sector of the electrical market;
- that combining the two leaders in the market would give the resulting group greater buying power, the benefits of which might not be passed on to consumers.

Yesterday Dixons shares fell by 8p to close at 128p, still above the 120p a share which Kingfisher had offered. Analysts said that the price fall was less than might have been expected. They said this was partly because there were hopes that the Commission would allow Kingfisher to rebid, and that a higher offer would then be forthcoming, and partly because Dixons had made a profit forecast as part of its defence which had been higher than expected. Kingfisher shares closed down 3p at 293p.

Lex, Page 20

De Benedetti fights legal setbacks on Mondadori

By John Wyles in Rome

MR Carlo De Benedetti sought yesterday to halt a string of legal setbacks over the last few days which have clearly passed the initiative to Mr Silvio Berlusconi and his allies in the extraordinary battle for control of Mondadori, Italy's largest publishing group.

Amid rumours, firmly denied by Mr De Benedetti's aides, that the financier was looking to sell on his 52 per cent of Mondadori's total capital, lawyers for his holding company CIR were yesterday preparing four initiatives designed to claw back ground lost in preliminary court judgments.

An application to the Milan Tribunal will seek to dissolve the managing agreement between the dominant shareholders of Amef, whose shareholders' meeting was taken over by Mr Berlusconi and his allies on Monday.

Amef, in turn, controls 50.3 per cent of Mondadori's ordinary capital. It was pushed into Mr Berlusconi's orbit by court judgments on Monday which rejected CIR arguments *that the shareholders pact* could not operate following the legal sequestration of the 25.7 per cent of shares belonging to the Formenton family.

The family's decision to break with Mr De Benedetti and swing behind Mr Berlusconi at the beginning of December triggered the current battle.

Mr De Benedetti's crucial card remains an agreement, for which his lawyers are now seeking court endorsement, that the Formentons will sell him their shareholding in 12 months time, in which case he would have 80 per cent of the publishing group's capital.

His third initiative this week aims for a legal judgment that the shareholders' agreement in Amef should be dissolved, *because of conflict between the* owners. CIR says it could then require the Formentons to sell immediately.

Finally, given the length of full trials in Italy, Mr De Benedetti is triggering an agreed arbitration procedure. He seeks a declaration on the validity of his agreement with the Formentons. The conviction within the De Benedetti camp remains that CIR cannot lose Mondadori as long as this accord can be enforced.

Isosceles loses £30m in 16 weeks

By Nikki Tait in London

ISOSCELES, the newly-formed company which took over the Gateway food retailing business in Britain's biggest leveraged bid, yesterday announced a £30m ($49.8m) loss before tax in the 16 weeks to November 11.

The figure – the first Isosceles has reported since the £2bn-plus bid fight last summer – is scored after an interest charge of £67m. The 16-week period begins starts from the point where Isosceles took control and ends on Gateway's *normal* interim reporting date.

However, no overall comparison is offered with the previous year, and the 4,000 Isosceles shareholders seem unlikely to glean much about underlying trading performance from the numbers.

Isosceles says that, as far as the core Gateway Foodmarkets subsidiary is concerned, any meaningful comparison is impossible. This is partly because the majority of the Gateway superstores have now been sold to Asda for £705m. Accounting policies have also *been revised.*

Isosceles did state, however, that results to date were slightly ahead of the projections given to its funding backers. It added while a "more buoyant retail environment would be welcome", it was "comforted by the size and stability of the food retail business."

At present, Isosceles' debt, including working capital facilities, stands at £1.25bn This compares with stated net worth of £170m at November – a figure which includes £602m of goodwill and the benefit of a £429m surplus thrown up by a property revaluation.

Nevertheless, having swapped £550m of that debt to an average rate of 12.2 per cent and capped another £125m at 12.5 per cent, Isosceles claims to be relatively unconcerned about the current interest rate climate.

The ongoing Gateway Foodmarkets chain (excluding the superstores sold to Asda) made a £39m operating profit on sales of £866m during the 16 weeks. In the 28 weeks to November 12 1988, sales were £1.9bn and trading profit, £85m.

However, the implied modest improvement in trading *margin is affected by the* change in store mix and treatment of central costs. The only guidance offered by Isosceles is that, on a genuinely comparable basis, there was a gross margin improvement of almost 1 per cent.

Wellworth, the Northern Ireland-based chain, made a trading profit of £4.7m on sales of £55.2m in the 16 weeks. Like-for-like sales rose by 5.3 per cent.

Results from Hermans, the US sporting goods retailer, and other smaller assets which Isosceles intends to sell are shown separately.

Together, they produced a £7m trading loss. Hermans itself made a trading loss of $13.2m on sales of $319.4m in the 28 week period to November, against $10.5m and $319.7m respectively a year earlier. Business is seasonally weighted to the second half.

Isosceles said that there had been "numerous" expressions of interest in Hermans – although no serious discussions have started – as well as the remaining UK superstores and certain other assets.

Isosceles eventually hopes to *retain some 600 stores, giving* it annual sales of over £2.5bn and about 8 per cent of the UK grocery market.

Four banks decline offer of shares in ailing Co op

By Andrew Fisher in Frankfurt

FOUR foreign banks have declined to take up their new share *entitlements* in the troubled Co op retailing concern, drawing a pained reaction from one of the two West German banks which are left with a majority of the shares.

The decision by the foreign banks to distance themselves from the continuing rescue efforts at what used to be one of Germany's biggest food retailers, comes just over a month after Mr Bernd Otto, Co op's former chief executive, was arrested for alleged embezzlement, balance sheet falsification, and breach of trust.

One of the four banks, Swiss Bank Corporation (SBC), said Co op's losses could be higher than forecast. The other banks are Amsterdam-Rotterdam Bank, Security Pacific National Bank of the US, and Svenska Handelsbanken of Sweden.

Last October, creditor banks kept Co op afloat by agreeing to write off *DM1.7bn* ($1bn), or 75 per cent, of its unsecured debt. The shareholders also agreed on a financial restructuring which involved a sharp cut in share capital and the injection of DM350m ($206m) of new funds through a capital increase guaranteed by DG Bank and Bank für Gemeinwirtschaft. These two banks are now left with the majority of Co op's share capital after the four non-German banks declined to take up their new share rights.

SBC also said no prospectus for an official listing of the new shares had been issued by the end of the subscription period on Monday.

The four banks had earlier acquired 72 per cent of Co op's shares as part of the restructuring programme. DG Bank said yesterday that it found the banks' decision "incomprehensible" and, bearing in mind that SBC had originally brought Co op to the stock market, "displeasing."

Co op made a DM370m oper*ating loss in 1988 and said* that losses of around DM200m were expected in 1989 and DM70m this year.

Bull recovers to post 1989 operating profit

By Alan Cane in Paris

GROUPE BULL, the state-owned French computer manufacturer, will have made an operating profit last year, in spite of production difficulties at its Angers printed circuit board plant that resulted in a loss at the six-month stage.

Mr Francis Lorentz, Groupe Bull chairman, said in Paris yesterday that after charges associated with restructuring and the assimilation of Zenith Data Systems, the US micro*computer manufacturer* Bull bought last year for $496.4m, the group was likely to post a "modest" overall group net loss for the year.

Sales growth, he said, would be in the region of 4 per cent. The company is expected to announce its preliminary results at the end of February.

Mr Lorentz, speaking at a press conference, announced a series of wide-ranging moves designed to equip the company to compete in the fast-changing computer industry.

He warned that a combination of stagnation in the computer market, which started in the US and was spreading to Europe, coupled with a demand from customers for standard rather than proprietary systems were evidence of a profound change in the industry which was adversely affecting every computer manufacturer.

Everyone, he said, was faced with price competition of the toughest type. It had led to heavy losses at companies including Wang and Unisys in the US and to the takeover of Nixdorf by Siemens of West Germany. The organisation of Groupe Bull involves splitting the company into four divisions, each reporting separately to the centre.

- Bull SA, with responsibilities for development, manufacture and sales in France.
- Bull International SA, covering operations in Europe, Africa, Latin America and South East Asia.
- Bull HN, where ownership is shared by NEC of Japan (15 per cent) and Honeywell of the US (15.6 per cent) with responsibility for North America, Mexico, Italy, the United Kingdom and Australia.
- Zenith Data Systems, in charge of development, manufacturing and sales of the group's microcomputer and work station products world*wide.*

All Groupe Bull's existing microcomputer activities are to be transferred to Zenith Data Systems which will continue to operate as an independent company with its own research and development, manufacturing and distribution resources. It is a move which reflects the company's concern over how best to integrate within the group an organisation which in cultural and business terms is far removed from a traditional computer-making company.

Mr Lorentz said that the group was continuing to cut overheads. Staff numbers had been reduced by 12 per cent since 1987 and in 1990 further major steps will be taken to improve distribution efficiency.

COMPAGNIE des Machines Bull said it would set up a joint holding company with Videoton, Hungarian electronics group, as a vehicle for *future joint ventures,* Reuter reports.

Mr Didier Ruffat, managing director of Bull's international arm, gave no details of specific plans but said Videoton was expecting help from Bull in both management and distribution methods. An agreement to establish the company, to be majority-owned by Videoton, will be signed on Friday.

Mr Francis Lorentz, Bull chairman, said recent changes in the East Bloc represented an opportunity for computer-makers with moves from centrally planned economies creating demand.

Swiss group eyes HK trader

By William Dullforce in Geneva

MR STEPHAN Schmidheiny, the Swiss industrialist and financier, is seeking to take over Cosa Liebermann, a trading group based in Hong Kong with annual sales of $1.4bn generated largely in the Far East and south-east Asia.

Anova, one of the three holding companies controlled by Mr Schmidheiny, announced yesterday it had started talks about the purchase of "an important equity participation" in Cosa Liebermann, and *said it wanted to secure an* important position in the Far East for strategic reasons. Anova is understood to want majority control.

Cosa Liebermann has 3,000 employees and trades in industrial machinery and branded consumer products, including Bally shoes and Cartier watches. The group was formed in 1988 from the merger of Libermann Waelchi Hong Kong, and UHAG Uebersee Handel Zurich. It is privately owned by several families in *Geneva and Zurich, the most* prominent being the Barbeys and the Müllers.

The Geneva-based Lacoray concern, which trades in textiles and consumer goods mainly in Europe, forms part of the group, whose chairman is Mr Claude Barbey.

Mr Schmidheiny, who holds minority stakes in Asea Brown Boveri, the electrical-engineering group, and SMH, Switzerland's biggest watchmaking group, has recently been reorganising his empire through a *series of sales and acquisitions.*

Hilton Hotels profits fall 24%

By Alan Friedman in New York

HILTON HOTELS, the Beverly Hills-based hotel and casinos company that is in negotiations to be acquired, yesterday reported a 24 per cent decline in fourth quarter net profits, to $26.9m.

Hilton's shares were marked $2 lower on Wall Street yesterday morning, to $75¾, as the group reported fourth quarter *earnings per share of 55 cents,* down from 73 cents a year earlier. For the whole of 1989 Hilton's net profit declined by 16 per cent to $110.1m, or $2.27 per share. Total 1989 revenues were up by 5 per cent at $998.2m.

Hilton put itself up for sale last summer, first retaining investment bankers Shearson Lehman for advice and then seeking bids in September. The shares peaked at $115 last summer, but have been marked *down in recent months as* word has spread of disappointing bids for the chain.

A decision by Hilton to either accept an offer for all of the company or to dispose of some assets is, however, believed likely in the next few weeks.

Last year's total net profits were hit by a 20 per cent drop in income contribution from the gaming side; the fourth quarter decline in gaming contributions was 28 per cent. *Contributions from the hotels* side were 12 per cent higher for the whole of 1989, and 5 per cent up in the fourth quarter.

Texan concedes defeat in battle for Bond Corp

By Our Financial Staff

MR JEFF REYNOLDS, the 28-year-old Texan who caused a stir earlier this month by disclosing his wish to take control of Mr Alan Bond's ailing Bond Corporation in Australia, yesterday conceded defeat in the face of widespread scepticism among bankers.

He described the main reason for withdrawing as "the continuing legal and mounting financial problems at Bond Corp" but went on to acknowledge that his Los Angeles-based Weatherby Investments and California Pacific International, its Singapore parent, had been unsuccessful in securing financial commitments.

On January 5, Mr Reynolds announced his willingness to inject up to A$250m equity into Bond Corp and assist in reducing its debt, saying he was already in talks with the Perth group. However, in the week which followed he provided little evidence to suggest that he had the means to do so.

In Brisbane, it was meanwhile *confirmed* yesterday that MEQ Nickel, one of Mr Bond's private family companies, had been put into receivership.

Wells Fargo and Mellon improve sharply

By Anatole Kaletsky in New York

WELLS FARGO and Mellon, two leading US regional banks, yesterday announced sharply improved operating results for the fourth quarter.

Wells Fargo, one of the biggest lenders for US leveraged buy-outs and takeover deals, exceeded analysts' expectations and its stock price rose by $1⅛ to $71½ in active trading on Wall street. Mellon's results were in line with forecasts and its price was almost unmoved by its results announcement, easing $⅛ to $26⅞.

Wells Fargo made net profits of $158m or $2.95 a share in the fourth quarter, up 20 per cent on the $136m or $2.45 reported a year ago. Net income for 1989 as a whole was $601m or $11.02 share, 17 per cent higher than 1988's $512m or $9.20.

Wells Fargo attributed its improved results mainly to higher net interest income, which reflected an increase in domestic lending activity.

Net interest income in the last year rose to $2.2bn from $2bn, while the net interest margin improved to 5.11 per cent from 4.96 per cent. However, the interest margin in the latest quarter was lower than a year earlier, at 5.20 per cent, compared with 5.29 per cent in the fourth quarter of 1988.

Wells Fargo's provision for loan losses in the latest quarter was $80m, little changed from the $75m provided in the fourth quarter of 1988.

Domestic net charge-offs in the last quarter were $42m Wells Fargo said. The company noted that it had no medium or long-term loans to developing countries, since these had all been sold or written off by the first quarter of 1989.

Mellon reported net income of $6m in the fourth quarter. After providing for preferred dividends this represented a loss of 20 cents a share.

A year ago the bank had a net profit of $48m or $1.20 a share. Mellon noted, however, that the fourth-quarter loss was due entirely to a $100m provision for Third World loan losses.

In the full year, Mellon made profits of $181m or $3.33 a share, excluding extraordinary gains. This compared with a loss of $65m or $3.65 in 1988.

GM appoints top executives at Saab Automobile

By Kevin Done, Motor Industry Correspondent

GENERAL MOTORS moved quickly yesterday to establish its formal management control of Saab Automobile, the former Saab car division of Saab-Scania, with the appointment of GM executives to the two key posts of chief executive and finance director.

Mr David Herman, who was executive director of GM's European parts and accessories operations based in West Germany, is to become president and chief executive officer of Saab Automobile with immediate effect.

General Motors of the US, the world's biggest car maker, bought a 50 per cent stake last month in the heavily loss-making Saab car operations in a deal worth $600m.

Mr James Crumlish, who has been in charge of finance at CAMI, the GM/Suzuki vehicle assembly joint venture in Canada, is to become finance director of Saab Automobile. Mr Jan-Erik Larsson, head of the Saab car operations, will be deputy chief executive.

The Saab Automobile board will be elected later, but GM will appoint five members to the 10-man board including the chairman.

Before his present post Mr Herman was the chairman and managing director of GM Continental, one of the group's most important European vehicle assembly operations, based in Antwerp, Belgium.

He joined GM in 1973 as a lawyer and has since held international posts, including manager of sales development for the USSR, and managing director of operations in Chile and Colombia.

As special assistant to the managing director of General Motors Espana he played an important role at the beginning of the 1980s in the development of GM's first Spanish car assembly operation.

The Saab car operations will play the main role in GM's attempt to break into the upper echelons of the European and the North American executive and luxury car markets in the 1990s.

Intel net income declines despite 9% rise in sales

By Kouise Kehoe in San Francisco

INTEL Corporation, the US semiconductor manufacturer, reported a decline in earnings for 1989 despite record sales for the year and a sound improvement in the fourth quarter.

Net income declined to $391m or $2.07 share, from $453m or $2.51 last time while revenues for the year advanced 9 per cent to $3.1bn, up from $2.9bn in 1988.

The group's earnings were below analysts projections, which averaged $2.72 a share. Nonetheless, Intel's stock rose yesterday in early trading from $35½ to $36¾.

Intel said the lower net income for 1989 was primarily due to two write-offs during the year and the development of a more expensive platform product line by its systems division.

In the second quarter, Intel had a $17m charge to cover the closing of its computer chip fabrication plant in Livermore, California, while in the third quarter, it had a $35m charge for the anticipated costs of getting out of its joint venture business with Siemens of West Germany.

Fourth-quarter net income increased to $123m, or 64 cents a share from $86m or 46 cents, on revenues which jumped to $895m, up 23 per cent from $727m for the same period a year earlier.

Intel is a leading supplier of microprocessors and other components to the personal computer industry. Despite slowing growth in that market, it considered that it was very well positioned to benefit from the trend toward higher performance 32-bit desktop computers.

Its international business was strong with 43 per cent of revenue coming from sales outside North America, the company said. The Asia-Pacific region showed especially strong growth.

During 1989 the company closed two of its oldest chip manufacturing facilities in California and began operations at a new process development facility in Silicon Valley.

The company also announced plans for its first European manufacturing site, in Ireland. Construction of a computer systems manufacturing plant has begun, the company said.

A semiconductor wafer fabrication plant and a chip assembly/test centre are planned for the site at a later date.

Apple warns of slowdown in PC market growth

By Louise Kehoe

APPLE Computer has warned that growth in the personal computer market is slowing much faster than expected, and markets outside the US are being affected. The company told employees that it will eliminate some jobs at its California headquarters as part of a plan to cut costs.

"We operate in a cyclical industry where even the most successful companies must have the flexibility to move quickly when times get tougher. This is one of those times," Mr John Sculley, Apple chairman, said in a memo to Apple Employees.

"In various parts of the world, Apple's growth is slower than we anticipated in our fiscal 1990 business plan. Given these results, we are re-examining our outlook for fiscal 1990 and are taking immediate actions to bring expenses growth better in line with revenue growth."

Mr. Sculley said that the employee profit sharing plan, which paid out $49.4m to Apple employees in fiscal 1989, will be modified. Salary reviews for most employees will be postponed and the practice of supplying company cars for executives will be phased out.

Some jobs will be eliminated, Mr. Sculley said, although detailed decisions have yet to be made. In addition, the workforce at company headquarters will be reduced through attrition, a significant drop in hiring, consolidation of departments and the transfer of some employees to positions in the field, he continued.

Last month Apple laid off 60 workers in its Canadian subsidiary, an official said. Apple's other major foreign markets are in Europe, but the company had no comment yesterday on whether the cuts will affect its European operations.

Apple Computer last month said it expected net income for the first quarter to December 1989 to be lower than 1988's comparable $140.5m, or $1.10 a share.

The company said sales will be higher than the $1.4bn recorded in the year-earlier period, but that the revenue increase over the prior year's quarter would be less than had been expected.

Failure of chip venture 'bodes ill for US industry'

By Louise Kehoe

THE failure of US Memories, the proposed memory chip manufacturing venture aimed at reducing US dependency on Japanese chip suppliers "bodes ill for the future of the US computer industry," according to leaders of the venture.

Announcing the termination of US Memories, Mr Sanford Kane, US Memories president, said American electronics companies had failed to make the necessary investment and procurement commitments essential to the venture's success.

"They made tactical rather than strategic decisions. There is no shortage of dynamic random access memory (d-ram) chips today, and they are not thinking about tomorrow," complained Mr Wilfred Corrigan, chairman of LSI Logic, and chairman of US Memories.

There is virtually no chance that the plan will be revised, Mr Corrigan stressed. "The last train has left the station," he said.

"The US Memories' initiative was a response from the US semiconductor company to a request from the computer companies for additional US sources of d-rams," Mr Corrigan said. This followed a year in which memory supply had been constrained by Japanese suppliers and dramatic price increases occurred. In the second half of 1989, however, supply increased, prices fell and the memory chip crisis ended.

US Memories planned to build a $1bn memory chip-making plant. It sought investments from US electronics and semiconductor companies.

"I am extremely discouraged," said Mr Kane. The failure of the US electronics industry to pull together on this venture does not bode well for their future competitiveness.

"In the US we have an allstar computer industry team, whereas the Japanese are team players," said Mr Kane. "Teamwork will always triumph in the end."

The US computer industry has 65 per cent of the world markets compared with Japan's 20 per cent, but the US has lost 17 per cent during the past four years while Japan gained 13 per cent. Japan is expected to gain worldwide dominance of the computer market by 1992.

"This is what happens when you have a country with a national industrial policy competing with one where there is an industrial policy vacuum," said Mr Corrigan.

"I still believe that US electronics firms must unify and work toward common goals if we are to remain a world leader," said Mr Andrew Procassini, president of the Semiconductor Industry Association, which sponsored the US Memories intervention.

Pan Am offers refunds to dissatisfied customers

By Paul Betts, Aerospace Correspondent

PAN AM is offering a full cash refund on its transatlantic flights from the UK for first class passengers not satisfied with the quality of the caviar and champagne, the comfort of the seats, the video entertainment, the cabin staff or any other aspect of its in-flight service.

The novel "no quibble money back *guarantee*" is part of a big marketing drive by the US airline to win a greater share of the highly competitive but lucrative first class passenger traffic on transatlantic routes.

The airline is also trying to boost its overall image and build back business from the UK which was hit by the Lockerbie air tragedy during the first half of last year. Mr Tom Plaskett, the Pan Am chairman, has estimated the Lockerbie accident cost the carrier about $100m in lost revenue last year.

But he has also said the airline expects good year-on-year improvement this year because it is coming back from a reduced traffic and revenue base due to the Lockerbie disaster. Pan Am's overall traffic was 14.9 per cent up last month compared with December 1988.

To improve its overall service, Pan Am has spent about $400m to enhance its terminal facilities at New York, Heathrow, Miami and Los Angeles.

It has also sought to improve the overall quality of its *in-flight* service to win back passengers and compete against a number of leading US carriers, like American Airlines, United and Delta, with aggressive expansionary plans on Pan Am's and TWA's traditional transatlantic business.

The airline said yesterday it was now so confident of its first class service that it had decided "to put our money where our mouth is."

The money-back offer will run from January 22 to March 15 and will be available for passengers travelling on a a full fare non-stop round-trip first class transatlantic ticket bought in the UK.

The airline said its first class London to New York fare costs £2,910, compared with £3,268 for British Airways.

GOLD FIELDS
OF SOUTH AFRICA LIMITED
(Incorporated in the Republic of South Africa)
(Registration No. 05/04181/06)

INTERIM REPORT FOR THE SIX MONTHS ENDED 31 DECEMBER 1989

CONSOLIDATED INCOME STATEMENT

	*Six months ended 31 December 1989	*Six months ended 31 December 1988	Year ended 30 June 1989
	Rm	Rm	Rm
REVENUE			
Income from investments	158.4	158.5	351.4
Income from fees, interest and other sources	135.2	73.9	147.1
	293.6	232.4	498.5
EXPENDITURE	61.5	66.0	131.8
Administration, technical and general	44.7	46.2	92.2
Interest	2.9	2.5	5.2
Drilling and prospecting	13.9	17.3	34.4
PROFIT BEFORE TAX	232.1	166.4	366.7
Tax	30.9	8.6	18.8
PROFIT AFTER TAX	201.2	157.8	347.9
Minority shareholders' interest	4.9	0.5	5.1
PROFIT ATTRIBUTABLE TO GROUP	196.3	157.3	342.8
Preference dividend	6.4	6.5	13.0
PROFIT ATTRIBUTABLE TO ORDINARY SHARES	189.9	150.8	329.8
Extraordinary item	87.1	–	22.7
	277.0	150.8	352.5

*Unaudited

Earnings per ordinary share – cents	198	184	403
Dividends – per ordinary share – cents	70	70	200
– absorbing – Rm	67.1	57.3	163.8
– times covered	2.8	2.6	2.0

CONSOLIDATED BALANCE SHEET

	*At 31 December 1989	*At 31 December 1988	At 30 June 1989
	Rm	Rm	Rm
Fixed assets	82.6	80.8	79.7
Investments	1,406.2	1,130.9	1,119.9
Mineral properties	117.1	58.7	58.9
Loans advanced	189.9	61.4	61.1
Net current assets	859.6	65.6	93.9
Current assets	1,033.6	155.5	235.0
Less current liabilities	174.0	89.9	141.1
	2,655.4	1,407.4	1,423.5
Ordinary share capital	1,041.1	11.3	13.0
Reserves	1,449.4	1,146.4	1,241.8
	2,490.5	1,157.7	1,254.8
Preference share capital	128.8	130.3	130.3
Minority shareholders' interest	4.1	3.7	4.0
Loans received	32.2	115.7	34.4
	2,655.4	1,407.4	1,423.5
Investments			
Listed – Market value	8,825.7	5,777.1	6,549.1
– Excess over book value	7,626.2	4,798.2	5,601.7
– Book value	1,199.5	978.9	947.4
Unlisted – Book value	206.7	152.0	172.5

*Unaudited

Number of preference shares in issue	4,441,250	4,499,100	4,499,100
Number of ordinary shares in issue	95,823,900	81,865,035	81,925,385
Net assets (as valued) per ordinary share – cents	11,799	8,018	9,356

NOTES

1. Dividends

(i) The final dividend (No. 83) of 130 cents per ordinary share in respect of the year ended 30 June 1989, absorbing R106.5m, was declared on 15 August 1989 and paid on 27 September 1989.

(ii) A dividend (No. 11) of 145 cents per preference share in respect of the six months ended 31 December 1989, absorbing R6.4m, was declared on 14 December 1989 and is payable on 31 January 1990.

2. Realisation of Investments The surplus arising from the realisation of investments totalled R118.1m. Of this amount R87.1m *(NIL)* accrued from a reduction in long-term holdings in Blyvooruitzicht Gold Mining Company Limited and Elandsrand Gold Mining Company Limited. The proceeds from this transaction will be used to fund, in part, an increase in the Group's interests in Driefontein Consolidated Limited and Kloof Gold Mining Company Limited. In accordance with Group accounting policy this item is treated as an extraordinary item and the surplus will be transferred to non-distributable reserve. In addition, a surplus of R31.0m *(R8.2m)* accrued from the realisation of shares in the Group's trading portfolio. This amount is included in "Income from other sources."

3. Prospects The recent increase in the U.S. dollar price of gold has been largely offset by the concomitant improvement in the Rand/dollar exchange rate. As a result, the average Rand price for gold received during the six months under review is only marginally higher than that received during the previous financial year. Lower international prices and the improvement in the exchange rate also have impacted adversely on the Rand prices of other metals and minerals produced by Group companies. The outlook for the current financial year therefore is that net profits accruing to Group operating companies are likely to be lower than those recorded during their preceding financial years. Nevertheless, dividend distributions by the Company for the current financial year should be maintained at last year's level.

DECLARATION OF INTERIM DIVIDEND

Dividend No. 84 of 70 cents per ordinary share has been declared in South African currency, payable to members registered in the books of the Company at the close of business on 2 February 1990.

Warrants payable on 7 March 1990 will be posted to members on or about 6 March 1990.

Standard conditions relating to the payment of dividends are obtainable from the share transfer offices and the London Office of the Company.

Requests for payment of the dividend in South African currency by members on the United Kingdom register must be received by the Company on or before 2 February 1990 in accordance with the above-mentioned conditions.

The register of members will be closed from 3 to 9 February 1990, inclusive.

On behalf of the Board,

R. A. Plumbridge (Chairman), C. T. Fenton — Directors

Registered and Head Office: Gold Fields Building, 75 Fox Street, Johannesburg 2001

London Office: Greencoat House, Francis Street, London SW1P 1DH

United Kingdom Registrar: Barclays Registrars Limited, 5 Greencoat Place, London SW1P 1PL

16 January, 1990

A MEMBER OF THE GOLD FIELDS GROUP

INTERNATIONAL COMPANIES AND FINANCE

A rare stumble for Toronto's golden brothers

The Reichmanns may ride the Campeau crisis, but they no longer look infallible, says Bernard Simon

The collapse of the US retailing empire controlled by Mr Robert Campeau, the French-Canadian entrepreneur, is a rare setback for the Reichmann brothers of Toronto.

Long admired for their ability to spot a good investment ignored by everyone else, Albert, Paul and Ralph Reichmann clearly made a mistake in consistently backing Mr Campeau's foray into the US retailing market through his highly leveraged acquisition of Allied Stores and Federated Department Stores.

Allied and Federated, burdened by US$7.5bn in debt, on Monday filed for protection from their creditors under Chapter 11 of US bankruptcy laws. As one of Campeau Corp's biggest shareholders and a substantial lender, Olympia & York Developments, the Reichmanns' holding company, stands to suffer sizeable losses.

The full extent of these losses and the degree to which they will strain O&Y can only be guessed at. Olympia & York is a private company which does not publish any details of its financial position or performance. However, recent events suggest that O&Y has been counting its pennies more carefully than usual.

It has pulled out of at least two big transactions in the past year – the purchase of the Sears Tower in Chicago, the world's tallest skyscraper, and the acquisition of BCE Development, another leading Canadian property developer.

O&Y is likely to have lost heavily on its equity stake in Campeau. It owns 5.2m Campeau shares bought at an estimated cost of US$60m. The present market price of the shares is little more than US$10m. O&Y also holds two series of debentures with a face value of US$300m, which are convertible at prices more than 10 times the common shares' present market value. It is still being paid interest on the debentures and hopes to get its money back when they mature.

On the other hand, the Reichmanns' loans to Campeau are well secured. O&Y has advanced two loans totalling US$325m to improve the two department store groups' liquidity. One loan is secured by a 50 per cent interest in Campeau's 68-storey flagship building in downtown Toronto and the other by assets such as Campeau's stake in Ralphs Grocery, a southern California supermarket chain which has not been made part of the Chapter 11 proceedings.

Furthermore, O&Y's involvement in Campeau is relatively small beer for North America's biggest real estate developer. Its equity stake in Campeau amounts to less than 1 per cent of its investment in public companies. The Reichmanns have diversified widely over the past few years. Among other things they control Abitibi-Price, the world's biggest newsprint maker, and Gulf Canada, an oil and gas producer.

Mr Paul Reichmann, O&Y's vice president and chief strategist, prides himself on the company's ability to take the long view, unfettered by the need to impress outside shareholders with sparkling results each quarter.

This philosophy, plus the lure of Allied and Federated's property holdings, may explain the Reichmanns' deepening involvement with Mr Campeau as the flamboyant entrepreneur moved into a business in which neither he nor they had any great experience.

Ironically, their first encounter with him, in 1980, was designed to foil rather than support the French-Canadian. The Orthodox Jewish Reichmanns helped establish their credentials in the Anglo-Canadian community in 1980 when they bought 9 per cent of Royal Trust, a leading trust company, which was under siege by Mr Campeau.

Seven years later, shortly after Campeau bought Allied Stores for US$3.5bn, the Reichmanns came to his assistance by paying C$198m (US$171m) for a half share in Scotia Plaza.

The Allied acquisition won widespread praise as a shrewd way to combine the real estate and retailing businesses. Mr Harry Rannala, analyst at McCarthy Securities in Toronto, notes that "after the Allied acquisition, I was prepared to put out my first buy recommendation for Campeau in many years."

Mr Rannala never put out his report on the Allied deal, because it was overtaken by the more expensive acqusition of Federated in April 1988.

Like the analysts, O&Y appears to have grown more nervous after the Federated takeover. Besides insisting on high-quality security for its two loans, it set stringent conditions for a restructuring of Campeau Corp last November, including the appointment of one of its senior executives as chairman of a new restructuring committee. And it declined to arrange a US$800m bridging loan until Campeau's debt burden was eased by the sale of Bloomingdale's, the Manhattan store which is the jewel in Federated's crown, and the repurchase of most of Federated and Allied's junk bonds.

O&Y moved to distance itself from the retailing arms last week when it became clear that they were headed for Chapter 11. A separate board of directors was set up for the US operations and the O&Y-dominated restructuring committee was disbanded.

Such caution may limit the damage to O&Y's finances and its reputation. But the Campeau saga will dissipate much of the aura of infallibility that has enveloped the Reichmanns.

FIRST BOSTON'S EXPOSURE IS $429M

FIRST BOSTON, the Wall Street investment banking affiliate of the Credit Suisse group, has an unsecured exposure of $429m in the bankruptcy of Federated Department Stores, the US retailing group said yesterday, writes Anatole Kaletsky in New York.

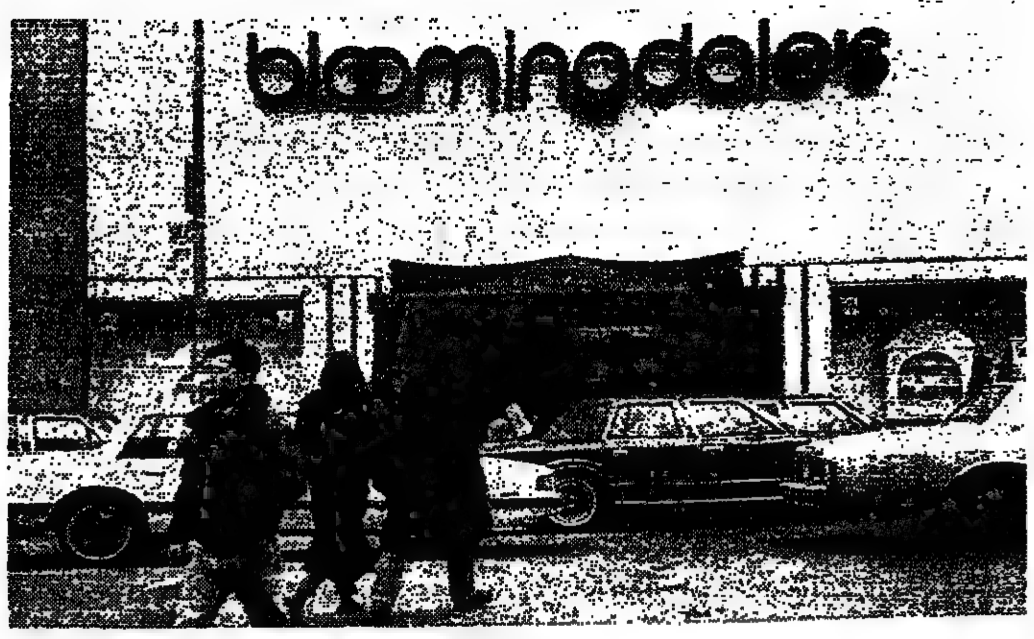
The disclosure that First Boston was Federated's biggest unsecured creditor came as no surprise to the markets, *but the size of the claim held* by the Wall Street investment bank suggested that First Boston's losses in the bankruptcy could well exceed previous estimates of less than $50m.

First Boston masterminded Mr Robert Campeau's disastrous takeover of Federated and was believed to hold about $125m of Campeau junk bonds as well as a substantial share of the $400m bridge loan arranged for Campeau to complete its takeover of Federated.

The other large unsecured creditors listed in Federated's bankruptcy filings included Manufacturers Hanover Trust, with an exposure of $108m; PaineWebber, owed $96m; and Dillon Read, $48m in loans outstanding.

Federated said its total liabilities were $5.33bn, as of October 28, 1989. It put total assets at $6.2bn. These figures did not include inter-company *balances*. Secured bank debt was estimated at $2.85bn, secured debt securities at $201m and unsecured debt at $795m. Other liabilities, excluding contingent or liquidated claims, were $1.29bn.

Federated also announced yesterday that Mr G. William Miller, a former US Treasury Secretary, was to serve as chief executive of a new US holding company which would include all Campeau's retailing arms.



The Reichmanns pressed for the sale of Bloomingdale's to reduce Campeau debt

ANGLOVAAL GOLD QUARTERLIES

	Gold produced (kg) Dec 89	Gold produced (kg) Sep 89	After-tax profit (Rm) Dec 89	After-tax profit (Rm) Sep 89	Earnings per share (cents) Dec 89	Earnings per share (cents) Sep 89
E.Tvl Cons	912	910	10.3	8.9	103.2	102.0
Hartebeest	7,959	7,615	41.2	42.2	31.8	32.7
Loraine	2,026	1,888	1.7	(1.3)	1.7	(45.4)

Earnings per share calculated after tax and capital expenditure. Parentheses = negative

Anglovaal mines raise gold recovery grades

By Jim Jones in Johannesburg

INCREASED gold production and tight control of costs allowed the three principal gold mines managed by South Africa's Anglovaal group to overcome the stresses of softening dollar gold prices during last year's December quarter.

Each of the three mines raised gold recovery grades and two limited the rise in unit working costs by raising production rates.

Hartebeestfontein, the group's largest mine, boosted production of underground ore and increased the tonnage of low-grade surface residues.

The directors do not say why the underground gold recovery grade increased to 9.1 grams per tonne (g/t) from the September quarter's 8.8 g/t; local mining analysts are surprised by the rise as the focus of mining operations is shifting steadily towards the lower-grade western section of the mine property.

The grade increase at Eastern Transvaal Consolidated Mines (ETC) is less surprising. The company operates a number of small mines, which gives it a significant degree of production flexibility. New plant to re-treat gold concentrates has been commissioned. ETC recently opened a new mine and is now intensifying its exploration programme.

In the Orange Free State the Loraine mine raised its mill throughput and gold recovery grades and earned a profit after tax.

Anglovaal is completing feasibility studies on gold reefs adjacent to the Loraine property, but has still to decide whether Loraine will participate in the proposed new mine's development.

● Gold Fields of South Africa (GFSA), the former subsidiary of the UK's Consolidated Gold Fields, lifted pre-tax profit in the six months to December to R232.1m ($91.4m) from R166.4m, but warns that earnings of group companies could drop unless the rand-denominated gold price rises.

The gain stemmed from fee and interest income, which rose to R135.2m from R73.9m as it earned interest on cash raised by its R1bn rights issue in September.

Fuji Heavy Industries bids for rest of US Subaru unit

By Our Financial Staff

FUJI HEAVY Industries, the Japanese vehicle and equipment maker, plans to take full control of Subaru of America, the US distributor of its cars, in a bid which values the 49.6 per cent owned offshoot at some $290m.

Subaru of America, established in 1968, is quoted on the Nasdaq Over-the-Counter market. Fuji Heavy is to offer $6 per share – in early trading yesterday, the stock rose $1 to match that level. Mr Toshiro Tajima, Fuji Heavy chairman, described the price as fair "especially in light of the uncertain outlook for the US automobile industry."

He added: "Only by controlling 100 per cent of Subaru of America will we be in a position to effectively integrate the manufacturing and distribution process which, we believe, is critical to the growing demands of our US dealer network and our customers."

The unit, with annual sales of $1.7bn, has 800 outlets in the US and 1,100 staff. It had a 1989 net deficit of $57.9m.

● *Anritsu Electric*, a Japanese maker of telecommunications equipment, is to buy Wiltron, a US manufacturer of measuring equipment for communications machines, for $180m, AP-DJ adds from Tokyo.

INTERNATIONAL CAPITAL MARKETS

Koor seeks immediate aid on overdue bond payment

By Hugh Carnegy in Jerusalem

TRADE union owners of Israel's Koor Industries are seeking short-term aid to help the group meet an overdue interest payment on bonds it issued in the US, and so buy time to negotiate a long-term solution to its debts of $950m.

Hevrat Ha'ovdim, the industrial holding company of the *Histadrut labour federation*, which owns Koor, said it had asked for further clarification from two foreign concerns which have offered to acquire a controlling stake in the group, Israel's biggest industrial operator. It had also not ruled out other options previously canvassed for keeping Koor afloat.

However, in the immediate term Koor requires help to fend off insolvency. Koor will become insolvent if it does not pay off a tranche of interest on US bonds worth $105m by January 25, the end of a grace period allowed for late payment. On Monday, the Koor board announced it had suspended all interest and principal payments on its debts until January 24, underlining its cash-flow crisis.

"We think a short-term injection can be agreed to allow Koor to function while we find a more permanent solution," said a senior Hevrat Ha'ovdim official. "We shouldn't have to work with the threat of a gun at our head. We need time to pursue options."

Koor's Israeli and foreign creditors are pondering the offers for the group proposed by Shamrock of California, a company owned by Mr Roy Disney, and the Belzberg brothers, Jewish investors from Canada. Both offers are based on the creditors agreeing to hefty write-offs and varying degrees of Israeli government aid.

The various parties may be happy with the idea of funds being provided to bridge the bonds deadline – but who will provide them is unclear. The foreign banks, which hold only a minority of Koor's debt, have balked at any suggestion of bailing out the bond holders.

"I don't think any non-Israeli bank is going to give Koor any money," said one Israeli involved in the problem "Maybe the Government, maybe the Israeli banks – or maybe Hevrat Ha'ovdim will sell an asset."

Nokia president to stay on until end of 1993

By Enrique Tessieri in Helsinki

NOKIA, Finland's largest privately-owned group, announced yesterday that Mr Simo Vuorilehto, president and chief executive of the group, will continue with the company until the end of 1993.

The announcement comes after rumours last year that Mr Vuorilehto would leave the company. Nokia has been going through a large-scale restructuring since the group's last president and chief executive, Mr Kari Kairamo, committed suicide in 1988.

Mr Kalle Isokallio, president of Nokia's data division, was appointed as deputy chairman of the group and vice president of Nokia's board of eight directors. Analysts believe that Mr Isokallio is the heir-apparent to Mr Vuorilehto.

Chicago futures traders to test portable terminals

By Deborah Hargreaves

CHICAGO'S two leading futures exchanges plan to be testing prototypes of hand-held electronic terminals for recording trades on their floors by the third quarter of the year.

The Chicago Board of Trade and the Mercantile Exchange have set February 2 as a deadline for receiving bids from concerns proposing to develop the electronic trading cards. The exchanges started their search for a supplier of an automated data input terminal (Audit) system in December as part of a rare joint initiative between the two markets.

The plan to develop a hand-held terminal has been discussed in the Chicago market for some time.

But it was the huge investigation by the FBI into futures fraud last year that finally prompted the two exchanges to devote $5m to its development.

As part of many charges levelled against Chicago traders, the FBI alleged that traders had scratched out prices of trades, which they record in pencil on their trading cards and hand in at the end of the day. It is not difficult for traders to alter prices to gain more profit on a trade.

Hand-held computer terminals would record the time, price and counterparty in a trade, and would have a link into the exchange central computer for clearing trades.

The Chicago exchanges say they will share the results of their Audit tests with other exchanges, and believe such a system could have applications in other businesses.

Prosecution likely for brokers in Repsol row

By Peter Bruce in Madrid

SPAIN'S NATIONAL Stock Market Commission is poised to prosecute, and possibly ban, four Spanish broking firms for falsifying share applications during the flotation last May of Repsol, the oil conglomerate. Drexel Burnham Lambert, whose Spanish operation is now closed, was fined Pta70m four months ago for the same offence.

An official at the Comision Nacional del Mercado de Valores (CNMV) would not name the four firms yesterday, but their investigations appear to have vindicated the claims of Drexel's former managers in Spain that they were not the only ones to have tried to collect more than the legal number of shares during the flotation's placement period.

Drexel closed down its office in Madrid after being accused of inventing the names of 400 individuals who then "applied" for 97,000 shares. The four Spanish brokers involved, the CNMV official said, had applied for a total of 300,000 shares using about 1,000 false names.

The part-privatisation of Repsol raised more than $1bn and was Spain's biggest flotation. It was executed in a number of tranches and the relatively modest allocation to institutions – and the accompanying low 1 per cent commission – has frequently led to suspicions that other brokers with corporate clients may have applied for shares through the individual tranche – where the commission was 4 per cent – as well.

The Spanish broking community was quick to close ranks after the Drexel affair, fearing it could damage the reputation of the rapidly modernising local bourses, and prosecution of the four Spanish firms is bound to revive these fears. The CNMV will only name the accused firms once the prosecutions are approved by the Finance Ministry.

Shipowners to buy defunct Greek bank

By Kerin Hope in Athens

THE NATIONAL Bank of Greece has agreed to sell the long-defunct Bank of Chios to a group of Greek shipowners.

The terms of sale to the group, which includes the Vardinoyannis, Goulandris and Livanos organisations, were not revealed. However, a banking source said the price was set at more than Dr2.5bn ($15m).

"This is the first privatisation in Greece, and it's appropriate because the Bank of Chios had been a shipping bank," said Mr Dimitris Germides, governor of the National Bank.

Mr Germides said the National Bank was negotiating to sell a minority interest in the Bank of Chios to a foreign bank as part of the deal, "so that there will be some international connections right from the start."

The sale – still to be approved by the Bank of Greece, the country's central bank – is part of a drive by the state-owned National Bank to restructure and modernise its portfolio.

The Bank of Chios closed before the Second World War. The National Bank acquired its shares in the early 1980s, bank officials said.

Greek shipowners are starting to diversify their holdings and have started investing more at home. Three other shipping groups are currently preparing to set up banking operations in Greece.

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market.

Closing prices on January 16

US DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Alberta 8⅞ 96	750	98⅞	99⅛	-0⅛	-0½	8.79
Alberta 9¾ 95	600	102½	102⅞	-0⅛	-0½	8.73
Austria 9⅞ 93	140	102⅝	102⅞	-0⅛	-0¼	8.62
B.F.C.E. 8⅞ 94	175	98¾	99⅛	-0⅛	-0½	8.66
B.F.C.E. 9¼ 95	150	102	102½	-0⅛	-0½	8.73
Brit. Tel. Fin. 9⅞ 98	250	102¼	102¾	-0⅛	-0⅝	8.94
Canada 9 96	1000	102	102½	-0⅛	-0⅝	8.50
C.C.C.E 9¼ 95	300	102	102½	-0⅛	-0⅝	8.68
C.N.C.A 9⅛ 93	150	†101⅛	101⅝	-0⅛	-0⅛	8.90
Credit National 8¼ 93	200	†98⅞	99⅜	-0⅛	-0¼	8.54
Credit National 7⅞ 92	100	97⅛	97⅝	-0⅛	-0¼	8.67
Credit National 9½ 92	160	†102	102½	-0⅛	-0¼	8.60
Dai-Ichi Kan 9⅞ 92	150	101⅞	102⅜	+0⅛	-0⅛	8.77
Denmark 8¼ 94	150	†97⅞	98⅜	0	-0¼	8.74
E.E.C. 7 91	100	97¼	97¾	0	0	8.48
E.E.C. 10 93	140	†103⅛	103⅝	0	-0¼	8.65
E.I.B. 8½ 99	150	97⅛	97⅝	-0¼	-1⅛	8.86
Eurofima 10⅛ 93	100	†103⅞	104⅛	-0⅛	-0⅛	8.61
Elec. De France 9 98	200	101	101½	-0⅛	-0½	8.77
Elec. De France 9⅝ 99	200	†103	103⅜	-0⅛	-1⅛	8.98
Finland 9 96	250	100⅞	101⅜	-0⅛	-0½	8.74
Fin. Exp. Cd. 8⅛ 92	200	99½	100	-0⅛	-0⅛	8.61
Fin. Exp. Cd. 9⅞ 95	200	102⅛	102⅝	-0⅛	-0⅛	8.82
Ford Motor Credit 8 91	250	†98⅞	99⅜	0	+0⅛	8.76
Gen. Elec. Cap. Corp. 9 93	500	†101⅛	101⅝	-0⅛	-0⅛	8.55
Gen. Elec. Cap. Crp. 10 1/2 91	300	101½	102⅛	-0⅛	-0⅛	8.80
G.M.A.C. 8¼ 94	500	†98⅛	98⅝	-0⅛	-0⅛	9.10
G.M.A.C. 9 96	300	99⅛	99⅝	-0⅛	-0⅛	9.11
Gen. Mtrs. Corp. 9⅛ 92	200	100⅞	101⅜	0	-0⅛	8.62
IBM Credit Corp. 8⅝ 92	400	99⅞	100⅜	-0⅛	-0⅛	8.60
IBM Credit Corp. 8⅞ 91	250	100	100⅛	0	-0⅛	8.68
IBM Credit Corp. 9 92	250	100⅞	101⅜	-0⅛	-0⅛	8.55
IBM Credit Corp. 9½ 92	250	101¼	101¾	-0⅛	-0⅛	8.66
Italy 8½ 94	1500	99⅛	99½	-0⅛	-0½	8.68
Italy 9½ 95	1000	103	103⅛	-0⅜	-0⅝	8.75
Italy 9⅞ 99	1000	†103⅞	104⅜	-0⅝	-1⅛	8.96
Itoh C. W/W 4⅞ 94	1000	107½	108¼	-3¼	-6⅝	2.65
Japan Dev. Bank 10 96	200	105⅛	105½	-0⅛	-0⅝	8.83
KFW Intl. Fin. 9 94	300	100⅞	101¼	-0⅛	-0⅛	8.71
L.T.C.B. of Japan 9¼ 92	200	100⅞	101⅜	-0⅛	-0⅛	8.80
New Zealand 9 94	850	99⅞	100⅛	-0⅛	-0⅛	8.98
Nippon Tel.&Tel. 9⅞ 98	250	102⅜	102⅞	-0⅛	-0⅜	8.95
Norway 8¼ 93	500	100⅜	100⅞	-0⅛	-0⅛	8.50
Portugal 8¼ 91	300	†98⅞	99⅜	-0⅛	0	9.01
Sumitomo Corp. W/W 4 93	1500	118¼	119½	-3⅞	-4	-1.32
Sweden 8⅞ 96	200	99⅞	100⅛	-0⅛	-0⅛	8.74
Toyota 9½ 91	200	101⅛	101⅝	0	-0⅛	8.48
Toyota Mtr. Corp. W/W 4 93	1500	†102⅞	103⅞	-0⅛	-2⅛	2.97
Victorian Rep 11⅛ 92	150	104⅝	105⅛	-0⅛	-0⅝	9.11
World Bank 8⅞ 99	1500	98⅝	99⅛	-0⅛	-1	8.58
World Bank 9 97	300	101	101½	-0⅛	-0½	8.75
World Bank 9 93	300	101⅜	101⅝	0	-0⅛	8.45
World Bank 9¼ 98	300	102⅛	102½	-0⅛	-0⅛	8.84
World Bank 9⅝ 99	500	104⅜	104⅝	-0⅝	-1⅛	8.88
World Bank 9⅞ 96	300	†104⅛	104½	-0⅛	-0⅛	8.80

Average price change... On day -0⅛ on week -1⅛

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Asian Dev. BK. 6 94	200	91⅛	91⅝	-0⅛	+0⅛	8.16
Austria 6⅛ 99	750	†91⅛	91⅝	-0⅛	-0⅛	8.04
Bk. Frgn. Econ. USSR 7 96	750	*92⅛	92⅛	0	-0⅛	8.66
Bank of Tokyo 5⅛ 93	100	93⅞	94⅛	0	+0½	7.99
Commerzbank o/s. 5⅞ 93	300	93⅞	94⅛	+0⅛	-0⅛	7.65
Credit Foncier 6⅛ 99	500	†91⅛	92	-0⅛	-0⅛	9.08
E.I.B. 6⅛ 99	600	88	88½	-0½	-0½	8.13
E.I.B. 6½ 99	300	†92	92½	-0⅛	-2½	7.71
E.I.B. 6⅝ 96	600	94½	95	-0⅛	-0⅛	7.71
E.I.B. 6⅞ 95	300	94½	95	0	-2½	8.03
Euro. Coal& Steel 5⅞ 97	175	88⅛	88⅝	-0⅛	-0⅝	8.07
Eurofima 6⅛ 96	100	91⅞	92⅛	-0⅛	-0½	7.87
Elec De France 5⅛ 97	300	89	89½	0	-0⅛	7.70
Hydro-Quebec 6⅛ 99	300	†91½	92	-0⅛	-0⅛	8.05
Japan Dev. Bk. 5⅞ 95	300	†88	88½	0	-0⅛	8.20
Japan Finance 5⅞ 97	100	86⅞	87⅛	-0⅝	-0⅝	8.21
I.A.D.B. 7⅛ 99	300	94½	94⅞	-0⅛	-0⅛	8.07
Ireland 6½ 97	300	90½	91	-0⅝	-0⅛	8.23
Ireland 7⅛ 99	500	94⅜	94⅝	+0⅛	-0⅛	8.11
Malaysia 6⅛ 94	150	96⅞	97⅛	+0⅜	+3	7.04
Nat. West BK. PLC 6 98	300	†87½	88	+0⅛	-0⅛	8.08
Nippon Telg.&Tel. 6 95	400	†91⅞	92⅛	0	-1⅛	6.65
Oesters. Kontbk. 5 93	300	91½	92	-0⅛	-0½	8.17
Portugal 5⅛ 92	150	94⅞	95⅛	+0⅛	0	7.97
Portugal 6⅛ 95	150	93½	94	0	0	8.05
Privatbanken 5⅛ 93	150	91⅞	92⅜	-0½	-0½	8.46
Royal Insurance 5⅛ 92	300	93⅞	94⅛	0	-1⅛	8.48
Turkey 6½ 95	500	†90⅛	90⅝	-0⅛	-0⅛	8.80
Union Bk. Finland 5½ 94	200	†91⅛	91⅝	-0⅛	+0⅜	8.06
World Bank 6 98	500	†87	87⅛	-0⅛	-0½	8.10
World BK. 6⅛ 97	600	90⅛	90⅝	-0½	-0⅜	8.94
World Bank 6⅛ 99	600	91⅜	91⅝	-0⅛	-0½	8.03

Average price change... On day -0⅛ on week -0½

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
African Dev. Bk. 5 96	150	†86	86¾	-0⅛	+1¼	7.72
Asfinag 5 03	100	†81¼	82	+0½	-0⅛	7.15
B.F.C.E. 4½ 98	200	†85	86	+0½	+0⅜	6.80
B.M.W. Fin. Neth. 5 13	150	†80	80¼	+0⅛	-2⅞	6.71
Britannia B/S. 4¼ 94	100	†81	83	-2	-4½	9.42
CIR. Int. W/W 3 93	125	*†86⅛	86⅞	0	+0⅜	7.65
Credit Lyonnais 4⅞ 00	100	†79⅞	80⅛	-0⅜	-2½	7.60
E.I.B 4⅝ 98	150	†83	84	0	-0½	7.31
Fin. Exp. Cd. 8¼ 92	75	†98½	99	+1½	-1⅝	8.76
Fletcher Chall. 4⅞ 98	150	†74	75	0	-3⅛	9.47
I.A.D.B. 6 2004	200	†90⅛	90⅞	0	-2½	7.06
Kobe City 4⅝ 98	150	†82½	83	0	-1¼	7.43
Leeds Perm. B/S. 4⅛ 93	200	†88	88⅛	0	+0⅜	8.45
Malaysia 5¼ 98	100	†80½	81½	0	+1¼	8.47
Maxwell Comm. Crp. 5 95	150	†83	83¼	+0⅛	+0⅛	9.07
Nat. Bk. Hungary 5½ 94	75	†88	90	0	0	8.31
Nationwide Ang. B/S. 4 93	200	†88	89	-1½	-0⅝	7.96
Prov. Newfoundland 5 03	150	†81	81½	-0¼	-0¼	7.17
Thailand 4⅝ 95	200	†83	84	-0½	+1	8.50
World Bank 5 03	150	†82	83½	-0½	-1	7.01

Average price change... On day -0⅛ on week -0⅜

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Canada 6⅛ 91	80	99⅛	99½	+0⅛	0	6.71
Canada 5⅝ 93	80	96⅜	96⅝	-0⅛	-0⅛	6.76
Eurofima 5 1995	20	91⅞	92⅜	-0⅛	-1⅛	6.83
E.I.B. 4⅞ 93	30	94½	94⅞	-0⅛	-0⅛	6.79
Ireland 5⅛ 93	30	93⅞	94⅛	-0⅛	-0⅛	7.28
Norway 5⅛ 95	50	93	93⅛	-0⅛	-1⅛	6.72
Sweden 4⅛ 93	50	93⅛	94	-0⅛	-0⅛	6.73
World Bank 5⅛ 96	10	†91⅛	91⅛	-0⅛	-0⅛	6.49
World Bank 7 94	20	–	–	–	–	–

Average price change... On day -0⅛ on week -0½

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Abbey Nat. 10⅛ 94 C$	150	96⅛	96⅞	0	+0⅛	11.19
Abbey Nat. 11⅝ 93 £	100	94⅝	95⅛	0	-0⅛	13.73
Aegon 7⅛ 92 Fl	100	99	99½	-0⅛	-0⅛	7.96
Alg. Bk. Ned. 5⅞ 93 Fl	200	92⅞	93⅛	-0⅛	-0⅛	8.35
Austria 7½ 94 ECU	100	91	91⅛	+0⅛	-1⅛	10.19
Barclays Aus. 13½ 91 A$	100	97	97½	-0½	-1⅛	15.38
Belgium 8⅛ 94 Ecu	150	92⅞	92⅜	-0½	-0⅜	10.44
Bell Canada 10⅞ 04 C$	200	99⅞	100⅜	+0⅛	-0⅛	10.84
BP Capital 9⅞ 93 £	100	90⅛	91⅛	-0⅛	-0⅛	13.36
British Airways 10 98 £	100	87⅛	87⅝	-0⅛	-0⅜	12.55
Brit. Telecom 9½ 93 £	150	91	91⅛	0	-0⅛	13.03
Comm. Bk. Aust. 12⅞ 93A$	100	†93⅛	93⅞	-0⅛	-0⅛	15.10
Comm. Bk. Aus. 13⅞ 94 NZ$	60	103⅞	104⅛	0	0	12.42
Credit Foncier 9 96 Ecu	100	94⅝	95⅛	-0⅛	-1⅛	10.09
Cr. Local France 9⅛ 92Ecu	100	97⅛	98⅛	-0⅛	-0⅛	10.24
Deut. Bk. Aus. 13⅞ 93 A$	125	98⅛	99⅛	-0⅜	-0⅜	13.78
Deutsche Bk. Fin. 15 94 A$	100	102⅞	103⅛	-0⅛	-1	14.04
Elec. De France 9⅛ 99C$	150	94⅝	94⅝	+0⅛	-0⅛	10.69
E.I.B. 7 96 LFr	100	†94⅛	95⅛	+0⅛	+0⅛	8.02
E.I.B. 7⅛ 99 Fl	150	91⅞	92⅛	-0⅛	-0⅛	8.34
E.I.B. 9 99 Ecu	150	94⅞	95⅛	-0½	-1⅛	9.81
Eurofima 7⅞ 94 Ecu	100	91⅛	91½	-1⅛	-1⅛	10.39
Export Dv. Crp. 8⅛ 92Ecu	100	96⅛	96⅞	-0⅛	-0⅛	10.44
Fed. Bus. Dv. Bk. 9 94 Ecu	100	95⅛	95⅝	-0⅛	-1⅛	10.32
Fed. Bus. Dv. Bk. 9⅞ 92 C$	75	†97⅛	97⅞	+0⅛	+0½	10.94
Ferrv. Stato 7⅞ 93 Ecu	100	91⅝	92⅛	-0½	-0⅛	10.70
Ford Cr. Can. 10⅛ 93 C$	100	†99⅛	99⅝	+0⅛	+0⅛	10.98
Ford Cred. Can. 10⅞ 96C$	125	98⅞	99⅛	+0⅛	0	11.12
Ford Cred. Fund. 10⅛ 93£	60	93⅛	93⅝	-0⅛	-0⅛	13.05
G.M.A.C. Canada 11 3/4 94C$	100	100⅞	101⅛	-0⅛	-0⅛	11.44
Heineken 7⅛ 94 Fl	150	98⅞	99⅛	-0⅛	-0⅜	7.84
Hydro-Quebec 11 99 C$	400	100⅝	101	+0⅛	-0⅛	10.84
Lloyds Bank 10⅛ 98 £	250	88⅛	88⅝	-0⅛	-1	12.57
Lloyds Bank 11⅞ 98 £	100	92⅞	92⅛	-0⅛	-0⅛	12.90
Montreal Tst. 10⅞ 93 C$	100	†97⅞	97⅞	0	-0⅛	11.56
Nat. Aus. Bk. 14⅛ 94A$	100	99⅞	100⅛	-0⅛	-0⅜	14.76
New Zealand 9½ 93 £	100	90⅛	90⅛	-0⅛	-0⅛	13.20
O.E.K.B. 10⅛ 99 C$	150	96⅝	97⅛	+0⅛	-0⅛	10.77
Royal Bk. Scot. 10⅞ 98 £	125	89⅞	90½	-0⅝	-1⅛	12.63
Saskatchewan 10⅛ 93 C$	200	97⅞	98⅛	+0⅛	+0⅛	10.89
State Bk. NSW. 13⅞ 93A$	100	97⅛	98	-0⅛	-0⅜	14.69
Sweden 7½ 93 Ecu	250	91⅝	92⅛	-0½	-1	10.15
Sweden 15 94 A$	100	101⅞	102⅛	-0½	-1⅛	14.24
Toyota Mtr. Cr. 10⅞ 94C$	150	97½	98⅛	+0⅜	+0⅛	10.93
Toyota Mtr. Cr. 11⅞ 92C$	150	100⅛	100⅜	+0⅛	+0⅜	11.05
World Bank 7⅛ 99 Fl	300	92	92½	-0⅛	-0⅜	8.34
World Bank 10⅞ 94 £	200	94⅛	94⅝	-0⅛	-0⅜	12.48
World Bank 13⅞ 92 A$	100	101⅛	102⅛	-0½	-0⅜	12.31
World Bank 14⅛ 94 A$	75	–	–	–	–	–
Zentrspk. 13⅛ 93 A$	75	†96⅛	97⅛	-0⅛	-0½	14.28

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn
Alliance & Leic. Bld 94 £	.08	99.87	99.92	24/01	15.21
Bank of Greece 99 US	0⅛	99.50	99.60	8/03	9⅛
Belgium 91 US	0	100.07	100.17	21/02	8.82
Chelt. & Gloucester 94 £	.063	99.80	99.85	28/02	15.31
Credit Foncier 98 US	.063	99.90	100.00	20/04	8.31
Dresdner Finance 99 DM	.031	100.14	100.23	28/01	8.16
EEC 3 92 DM	0	100.20	100.30	22/02	6⅛
Halifax BS 94 £	.1	100.00	100.05	9/02	15.16
Invt. In Industry 94 £	0⅛	99.95	100.05	17/01	15.19
Leeds Perm. B/S. 94 £	-0⅛	100.06	100.10	15/01	15.37
Milk Mkt. Brd. 5 93 £	0⅛	99.89	99.94	29/03	15⅛
New Zealand 5 97 £	.07	99.99	100.09	22/02	15⅛
Northern Rock 92 £	0½	99.84	99.89	20/01	5⅛
State Bk. Nsw. 98 US	.188	100.05	100.15	11/02	8.81
Woolwich Equit. BS. 93 £	0⅛	99.98	100.03	15/01	15.37
Woolwich 5 95 £	0⅛	99.98	100.03	22/02	15.31

Average price change... On day +0.01 on week +0.02

CONVERTIBLE BONDS	Cnv. date	Cnv. price	Bid	Offer	Chg. day	Prem
Alcoa 6⅛ 02 US	8/87	62.	117⅛	118⅛	-2	0.52
Amer. Brands 7⅛ 02 US	9/87	56.7	115⅛	116⅛	-0⅛	0.77
CBS. Inc. 5 02 US	4/87	200.	95⅞	96⅛	-0⅛	8.95
Dai-Ichi Kan. 3⅞ 04 US	7/89	3486.	93⅞	94⅞	-1⅛	7.33
Primerica 5½ 02 US	4/87	66.75	74	75	0	78.57
Eng. China Clay 6½ 03 £	9/88	4.8	95⅛	96½	-0⅛	2.17
Fujitsu 3 99 US	5/84	1106.	209	210	-6½	-4.32
Ladbroke Grp. 5⅛ 04 £	10/89	3.55	102⅛	103⅛	-0½	11.55
Land Secs. 6⅛ 02 £	6/87	6.72	88⅝	89⅝	+0⅛	15.40
Minolta Camera 2⅛ 94DM	2/86	1004.	109	110⅛	+0⅛	3.27
MCA Inc 5½ 02 US	9/87	69.62	97	98	-1⅛	19.10
Mitsubishi Bk. 3⅛ 04US	5/89	3266.	87⅞	88⅞	-2⅞	3.06
Next Plc 5⅛ 03 £	11/87	4.3	96⅛	97⅛	-0⅛	328.34
Nikl Stpg. Bk. 2⅞ 03 US	4/88	.804	137⅞	138⅞	-18⅛	-9.88
Omnicom Inc. 6 1/2% 04 US	10/89	28	102⅞	103⅞	-1⅛	16.95
Osaka Takashi 2⅞ 02 US	4/87	1310.	274	275	-18	-5.29
Ranks Hovis 4⅛ 03 £	1/88	3.5	122⅛	123⅛	-0⅛	-0.35
Redland 7⅛ 02 £	11/87	5.4	110½	111½	+0⅛	8.74
Saatchi&Stchi. 6⅛ 03 £	10/88	4.41	85½	86½	-1	48.15
Silicon Graphics 8 04 US	6/89	23.18	122	123	+0⅛	5.64
Sumitomo Bank 3⅛ 04 US	2/89	3897.	81⅛	82⅛	-3	3.70
Texas Inst. 2⅞ 02 US	9/87	82.87	77½	78½	-0⅛	84.69
Utd. N'papers 8 04 £	10/89	8.77	120	121	-0⅛	134.71
W.R. Grace 6⅛ 02 US	9/87	42.12	91⅛	92⅛	-1⅞	27.39

* No information available-previous day's price

† Only one market maker supplied a price

Straight Bonds: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week = Change over price a week earlier.

Floating Rate Notes: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte = Date next coupon becomes effective. Spread = Margin above six-month offered rate (‡three-month; §above mean rate) for US dollars. C.cpn = The current coupon.

Convertible Bonds: Denominated in dollars unless otherwise indicated. Chg. day = Change on day. Cnv date = First date of conversion into shares. Cnv. price = Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem = Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

INTERNATIONAL CAPITAL MARKETS

AIBD blows a fuse over electronic trading

Andrew Freeman on opposition to the association of bond dealers' Trax system

The Association of International Bond Dealers, the Eurobond market's regulatory and trade association, faces a tough battle over the electronic trading system on which its future depends.

The opposition to the trade matching and reporting system, known as Trax, comes from two main camps. The first is an unusual alliance of the otherwise fiercely competitive clearing and settlement organisations, Euroclear and Cedel. The second is a group of AIBD members which objects to the compulsory nature of the system.

The principal reason for the clearers being opposed to Trax was that they believed from the start that it would allow the AIBD to expand from trade matching and reporting into settlement. Although the AIBD has maintained that it has no such intention, it could make such a move in the future.

Equally important, however, is that Trax could be quickly modified to allow trade netting, a function which would effectively reduce the role of the clearers to that of depositories. Efficient trade matching reduces the need for stock borrowing against unmatched positions. That threatens to undermine one of the clearers' most profitable activities.

Nevertheless, in recent months the clearers appear to have been manoeuvred into accepting Trax, leaving visible opposition mainly from AIBD members. One UK bank, Hambros, is known for its antagonism and has argued that the system is an expensive imposition. Mr Tony Cooper, head of Hambros' Eurobond trading and sales operations, calculates the annual cost of Trax to the bank as £250,000 ($400,000).

However, Peter Morris of Fulcrum Group, the consultancy commissioned to write the rules for Trax, points out that Hambros has an obvious disadvantage in using Trax. "Many of its clients, particularly retail clients, are not on the Trax system, so Hambros does not benefit fully from the risk management aspects of the system."

Mr Morris argues that the wider criticism of Trax – that the technical support provided for users is not up to scratch – has some justification, but that criticism tends to take second place.

The paradox of Trax is that had members taken the proposal seriously from the start, it might never have passed the planning stage. By the time opposition had coalesced, Trax was already a reality.

The most members can do now is to delay its development and application. This is not as anodyne as it sounds. UK-based opponents of Trax have ascertained from The Securities Association (TSA) that the AIBD is not the only body able to satisfy TSA reporting requirements for the Euromarket.

A private letter from the TSA to a UK bank confirmed recently that Eurobond houses could report trades through Euroclear or Cedel, both of which are recognised by the TSA and offer free trade reporting services.

However, because the banks belong to the AIBD, they have to report through Trax as a condition of membership. The TSA line raises the possibility that banks could leave the AIBD without running foul of UK trade reporting requirements. Alternatively, a bank could remain in the AIBD and use a separate company for trade reporting.

Trax has powerful supporters among AIBD members who have spent large sums on computer systems, and most of the leading Eurobond houses are firmly committed to its extension. In addition, both TSA and the Securities and Investment Board are in favour of Trax.

Several banks have argued that they would like to remain AIBD members, but reporting their trades outside the Trax system.

Even this by-passing of Trax would seem to ignore the wider reality of international trade reporting requirements. Supporters of Trax argue that in the longer term, real-time reporting of off-exchange trading will be the norm. Bypassing Trax now would be at best a temporary cost saving.

If Trax is the key to the AIBD's future, its implementation will depend on the association's ability to improve its management. Last year public news of resignations and disputes was further coloured by private tales of cosy contracts and betrayal.

The appointment as chief executive of Mr Hans-Peter Frick, a talented Swiss lawyer, appeared to herald a new era for the AIBD.

Mr Frick was given the task of leading the formation of an enlarged and carefully structured business. At the Vienna annual conference, Mr Frick was warmly introduced and characterised as the driving force of reform.

Within weeks, it had all turned sour. Mr Frick suddenly resigned.

The recruitment of Mr John Langton from Gintel, the broking house, stopped the rot. He brought a formidable reputation and experience to the job. Mr Langton's urgent task is to improve the morale both of members and staff, and to prepare the ground for the next annual conference, scheduled in Amsterdam in May.

A third article next week will examine the relationship between the AIBD, Euroclear and Cedel. A previous article was published on January 12.

Eurobonds depressed by uncertain world background

By Andrew Freeman

INTERNATIONAL BONDS

EUROBOND markets had another difficult day yesterday as the uncertain world background caused investors to remain wary. Several new issues emerged, to average receptions.

UBS Phillips & Drew was the lead manager of an Ecu500m seven-year issue for the European Investment Bank. The deal was launched as a fixed-price reoffer to yield 15 basis points over the equivalent French government bond.

Against an unstable secondary market, where some prices fell by around ½ point in anticipation of the new issue, the bonds had a mixed reception.

By the close of trading, the deal was still in syndication, but away from the lead manager there were spoiling prices at less 0.45 bid, outside fees to co-managers.

UBS P&D said the jumbo deal marked an important sign of the sector's maturity and reported steady central bank and institutional interest in the paper.

It took more than half the bonds itself and said it hoped to create a benchmark issue. The proceeds were unswapped.

In the depressed German market, Salomon Brothers brought a DM500m callable floating rate note for the Republic of Austria, and quickly increased the transaction to DM700m.

The 15-year notes were priced at 100¼ with a spread 15 basis points below three-month Libor, leading to some comments that this was slightly tight. Salomon was quoting the paper at 99.96 bid, outside syndicate fees of 20 basis points.

Bankers Trust was the lead manager of a DM75m three-year issue for Swedish Export Credit. The structured deal was aimed at investors looking for protected equity exposure in the German market.

A fixed 3 per cent coupon was designed to approximate the dividend yield on the Faz index, while investors were offered downside protection in the event of a fall in the index.

Interest in the deal was reasonable and the bonds were trading at less 1½ bid, a discount equivalent to full fees.

Elsewhere, Goldman Sachs brought a $100m five-year structured deal for the Kingdom of Denmark as a follow-up transaction to last week's issue in the US of Nikkei put warrants.

The bonds carried an 8⅞ per cent coupon and were priced to yield 69 basis points over the equivalent US Treasury. According to Goldman, this offered investors a pick-up over secondary market paper and the bonds were trading inside fees at less 1⅝ bid.

It is thought that proceeds were swapped into a floating-rate European currency.

Polly Peck is expected to launch an SFr150m seven-year issue in the next few days.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
D-MARKS						
Austria, Republic of(a)‡◆	700	-15bp	100.25	2005	20/10bp	Salomon Brothers
Swedish Export Credit(b)◆	75	3	101¼	1993	1½/1	Bankers Trust
ECUs						
European Investment Bank(c)◆	500	10	100.20	1997	30/20bp	UBS Phillips & Drew
AUSTRALIAN DOLLARS						
Aegon NV(c)◆	250	Zero	30.45	2000	1⅛/⅞	Bankers Trust Int.
US DOLLARS						
Denmark, Kingdom of◆	100	8⅞	101⅛	1995	1⅞/1⅛	Goldman Sachs Int.
TRIPS-Series J(d)‡◆	42.46	¼	100⅞	1991	⅞/½	Toyo Trust

‡Floating rate notes. ◆Final terms. a) Call at par after five years and on coupon dates thereafter. Coupon pays 15bp under 3-month Libor. b) Redemption linked to FAZ index of 100 W.German shares. Redemption at par with additional payment of 60% of any increase in the FAZ index from today and 14 days before maturity. c) Non-callable. d) Coupon pays ¼ over 6-month Libor. Backed by dual-currency securities.

Bonds slide on political and inflationary fears

By Martin Dickson in London and Janet Bush in New York

GOVERNMENT BONDS

MOST leading bond markets were in retreat yesterday against a backdrop of currency uncertainties, inflationary fears and concern over the political turmoil in the Soviet Union.

A sharp drop in Japanese bond and equity prices during Tuesday's trading in Tokyo set a nervous tone for Europe and the US, while the strengthening of the dollar against the D-Mark amid fears about liberalisation in Eastern Europe dominated Continental European markets.

■ JAPANESE GOVERNMENT bonds, which plummeted in Tokyo on Tuesday, clawed back some of the drop in London. At the close, the benchmark 119 bond due 1999 was quoted at a yield of 6.62, compared to Tokyo's close of 6.71.

The bond closed in Tokyo on Friday at 6.50. Monday was a public holiday in Japan.

When the Tokyo market reopened on Tuesday, both bonds and equity markets fell steeply amid concern about the weakness of the yen and the turmoil in the USSR, which has been strengthening the dollar. At one point the 119 reached a yield of 6.83.

■ WEST GERMAN government bonds opened weakly as the D-Mark fell against the dollar and slipped further during the day due to weakness in the US Treasury market. The Bundesbank was reported to have been buying paper.

Most action was concentrated in futures, with the Liffe March contract opening at 88.90 against an overnight level of 89.28, and reaching a new low of 88.43, with a high of 88.95. It closed at 88.46. Trading volume was high, with over 58,000 contracts struck.

In the cash market, trading was more subdued. The Federal Government's 7¼ January 1999 bond was fixed 64 pfennigs lower at 97.77 to yield 7.58 per cent, after 7.48 per cent on Monday. It was quoted at the close at 97.55.

■ THE DUTCH and French markets both opened up to ½ a point weaker, following West Germany, but the French market improved compared to the other two during the day. This was thanks to D-Mark weakness against the franc and a Bank of France repurchase announcement, which was taken as putting a cap on interest rates.

The OAT 8⅛ 1999 was quoted in late trading at around 91.53, off some 15 cents on the day, for a yield of 9.51. The yield differential against Germany at 10 years narrowed to around 192 basis points.

The guilder yield differential widened from 72 basis points to 73, with the Dutch market falling broadly in line with Germany, and overshadowed by last night's new government bond auction.

■ IN the UK, the gilt market saw a morning rally in the wake of Monday's plunge of more than a point. The March long gilt future, which was 89.17 overnight, forged ahead to a high of 89.26.

Dealers said this was partly due to a realisation that sterling had remained relatively firm amid the currency upheavals of recent days.

But the bearish sentiment of the last week took hold and prices dropped, with the March future reaching a low of 89.06 and closing at 89.08. The benchmark 11¾ Treasury 2003/07 was quoted at the close at 107¹¹⁄₁₆, against 107¹⁵⁄₁₆ overnight, to yield 10.64.

■ THE US Treasury bond market continued to slump yesterday as traders returned from the long holiday weekend and prices slipped by around ⅝ point at the long end of the yield curve.

In late trading, short-dated issues were quoted as much as ½ point lower, while the benchmark long bond stood ⅝ point lower for a yield of 8.25 per cent.

The losses came in a continuing reaction to last Friday's news of a larger-than-expected rise in US producer prices in December, which has heightened concerns that, although the economy has decelerated considerably, inflation pressures remain. This is likely to reduce the scope for any further easing by the US Federal Reserve.

The Fed announced a draining operation through two-day matched sales. This was expected, with Fed funds trading a touch below the assumed Fed target of 8¼ per cent at 8⅛ per cent and with a need to drain reserves from the banking system this week.

■ THE CANADIAN government bond market was quoted lower at yesterday's midsession in sympathy with the US Treasury market.

The central bank said that it wanted to see rates on three-month Treasury bills drop by 25 basis points. At midsession, the yield on the two-year government issue was quoted at 10.13 per cent, compared with Monday's close of 10.01 per cent.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
UK GILTS		13.500	9/92	102-08	-3/32	12.46	12.02	11.89
		9.750	1/98	92-23	-4/32	11.15	10.86	10.57
		9.000	10/08	90-24	-6/32	10.11	9.96	9.70
US TREASURY *		7.875	11/99	97-24	-23/32	8.21	8.00	7.78
		8.125	8/19	98-17	-23/32	8.28	8.06	7.84
JAPAN	No 111	4.800	6/99	89.3039	-0.834	6.65	6.14	5.47
	No 2	5.700	3/07	93.7350	-1.829	6.47	6.00	5.47
GERMANY		7.000	9/99	95.3800	-1.030	7.69	7.62	7.16
FRANCE	BTAN	8.000	10/94	91.9528	-0.168	10.20	10.22	9.52
	OAT	8.125	5/99	91.5300	-0.150	9.61	9.57	8.98
CANADA *		9.250	12/99	96.2500	0.000	9.84	9.82	9.47
NETHERLANDS		7.250	7/99	93.0500	-0.570	8.33	8.15	7.72
AUSTRALIA		12.000	7/99	94.3447	-0.464	13.05	12.90	13.05

London closing, *denotes New York close
Yields: Local market standard Prices: US, UK in 32nds., others in decimal

Technical Data/ATLAS Price Sources

LONDON MARKET STATISTICS

FT-ACTUARIES SHARE INDICES

These indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

	EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses show number of stocks per section)	Tue Jan 16 1990 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at (25%)	Est. P/E Ratio (Net)	xd adj. 1990 to date	Mon Jan 15 Index No.	Fri Jan 12 Index No.	Thu Jan 11 Index No.	Year ago (approx) Index No.
1	CAPITAL GOODS (203)	914.92	-1.3	12.44	4.66	9.80	0.59	927.38	933.20	949.65	823.21
2	Building Materials (27)	1125.07	-1.8	14.00	5.02	8.91	0.00	1145.19	1150.09	1171.87	1010.34
3	Contracting, Construction (36)	1539.02	-1.5	16.42	5.12	7.99	0.04	1563.74	1567.16	1602.24	1557.64
4	Electricals (10)	2605.62	-1.0	10.33	4.77	12.17	0.00	2632.99	2662.36	2695.59	2379.38
5	Electronics (30)	1957.76	-0.3	9.18	3.69	14.08	0.00	1963.37	1973.59	2012.44	1897.38
6	Engineering-Aerospace (8)	462.87	-1.9	12.99	4.77	9.50	0.04	471.81	478.07	489.02	0.00
7	Engineering-General (45)	488.69	-0.8	11.45	4.79	10.53	0.15	492.48	495.66	500.88	0.00
8	Metals and Metal Forming (6)	472.85	-1.5	24.94	6.36	4.52	0.00	480.29	481.33	492.88	470.65
9	Motors (16)	382.27	-1.6	13.92	5.52	8.42	0.00	388.47	389.98	397.31	269.55
10	Other Industrial Materials (25)	1683.64	-1.8	10.00	4.38	11.61	2.70	1714.40	1729.15	1754.02	1579.55
21	CONSUMER GROUP (179)	1302.38	-0.9	8.74	3.65	14.31	0.62	1313.69	1324.10	1345.36	1064.47
22	Brewers and Distillers (22)	1523.39	-1.2	9.42	3.45	13.17	0.00	1541.34	1544.45	1568.17	1166.55
25	Food Manufacturing (19)	1130.31	-0.9	9.61	3.91	12.92	1.48	1140.04	1150.05	1167.25	967.78
26	Food Retailing (16)	2278.59	-0.1	9.02	3.32	14.39	3.63	2281.08	2299.12	2334.43	1906.14
27	Health and Household (13)	2623.89	-1.1	5.97	2.49	19.96	0.03	2652.28	2676.76	2737.66	1863.89
29	Leisure (33)	1640.89	-1.0	8.20	3.59	15.03	0.24	1658.27	1661.08	1683.63	1407.78
31	Packaging & Paper (15)	586.46	-0.6	11.22	4.92	11.20	0.44	590.08	592.80	599.22	548.29
32	Publishing & Printing (17)	3671.32	-1.4	8.57	4.81	15.07	3.12	3722.30	3746.96	3808.38	3363.17
34	Stores (31)	794.96	-0.3	11.01	4.73	11.81	0.25	797.23	811.23	821.10	705.65
35	Textiles (13)	529.15	-1.1	10.93	5.66	11.10	0.00	535.30	542.26	547.27	483.84
40	OTHER GROUPS (102)	1186.01	-0.8	10.80	4.70	11.09	0.06	1196.67	1205.71	1222.58	935.15
41	Agencies (16)	1565.09	-0.7	6.75	2.30	18.18	0.05	1575.81	1590.29	1617.14	1104.98
42	Chemicals (22)	1241.78	-0.5	12.22	5.19	9.65	0.27	1247.90	1260.17	1285.72	1075.09
43	Conglomerates (13)	1650.29	-1.6	11.01	5.90	10.63	0.00	1676.66	1684.21	1707.15	1285.13
44	Transport (13)	2323.68	-1.2	10.42	4.14	12.23	0.00	2351.99	2371.70	2405.21	1971.71
46	Telephone Networks (2)	1215.63	-0.3	10.45	4.22	12.45	0.00	1219.29	1232.28	1254.22	1037.54
47	Water (10)	1951.04	-0.4	17.86	6.94	6.20	0.00	1958.68	1952.26	1980.33	0.00
48	Miscellaneous (26)	1920.60	-1.0	9.23	4.29	12.21	0.13	1940.96	1955.32	1963.75	1242.36
49	INDUSTRIAL GROUP (484)	1184.54	-1.0	10.29	4.22	11.89	0.40	1196.14	1204.99	1224.06	982.55
51	Oil & Gas (16)	2341.80	-0.3	9.21	4.88	14.34	0.00	2348.59	2351.53	2383.06	1795.37
59	500 SHARE INDEX (500)	1281.59	-0.9	10.14	4.31	12.17	0.37	1292.92	1301.39	1321.54	1051.43
61	FINANCIAL GROUP (114)	840.23	+0.1	–	5.06	–	0.18	839.83	841.99	852.59	699.09
62	Banks (9)	874.65	......	19.59	5.74	6.71	0.00	874.21	879.10	890.30	695.14
65	Insurance (Life) (7)	1404.94	+0.8	–	4.73	–	0.00	1394.32	1396.53	1406.20	970.54
66	Insurance (Composite) (7)	710.58	+0.2	–	5.32	–	0.00	709.40	709.10	717.46	544.42
67	Insurance (Brokers) (6)	1133.55	-0.4	6.55	5.50	20.32	0.00	1138.96	1145.25	1162.06	949.38
68	Merchant Banks (8)	494.70	-0.2	–	3.67	–	0.00	495.64	491.04	496.05	331.98
69	Property (49)	1202.01	+0.4	7.59	3.55	16.67	0.11	1203.62	1204.05	1226.18	1240.46
70	Other Financial (28)	339.59	-0.7	12.42	6.20	10.56	1.04	341.87	349.09	347.49	356.78
71	Investment Trusts (68)	1245.74	-1.0	–	2.91	–	0.27	1258.31	1275.45	1299.47	970.58
91	Overseas Traders (5)	1553.85	+0.1	8.89	5.10	12.94	0.00	1552.32	1570.28	1574.14	595.561
99	ALL-SHARE INDEX (687)	1175.64	-0.7	–	4.39	–	0.32	1184.17	1191.71	1209.67	1288.37

	Index No.	Day's Change	Day's High (a)	Day's Low (b)	Jan 15	Jan 12	Jan 11	Jan 10	Jan 9	Year ago
FT-SE 100 SHARE INDEX‡	2349.1	-37.1	2369.7	2329.5	2366.2	2380.1	2417.9	2412.6	2436.3	965.01

FIXED INTEREST

	PRICE INDICES	Tue Jan 16	Day's change %	Mon Jan 15	xd adj. today	xd adj. 1990 to date
	British Government					
1	Up to 5 years	115.11	-0.04	115.43	0.27	0.91
2	5-15 years	126.53	-0.18	126.75	–	0.43
3	Over 15 years	135.86	-0.18	136.10	–	0.00
4	Irredeemables	154.17	+0.21	153.85	–	0.00
5	All stocks	125.32	-0.13	125.58	0.09	0.56
	Index-Linked					
6	Up to 5 years	141.44	......	141.43	–	0.00
7	Over 5 years	139.83	......	139.82	–	0.21
8	All stocks	139.83	......	139.83	–	0.19
9	Debentures & Loans	105.22	+0.04	105.18	–	0.31
10	Preference	84.05	-0.02	84.07	–	0.16

	AVERAGE GROSS REDEMPTION YIELDS		Tue Jan 16	Mon Jan 15	Year ago (approx.)
	British Government				
1	Low	5 years	10.55	10.44	9.30
2	Coupons	15 years	10.06	10.06	9.02
3		25 years	9.92	9.95	8.95
4	Medium	5 years	11.65	11.61	10.35
5	Coupons	15 years	10.44	10.41	9.58
6		25 years	10.04	10.02	9.21
7	High	5 years	11.79	11.74	10.62
8	Coupons	15 years	10.62	10.59	9.74
9		25 years	10.15	10.13	9.20
10	Irredeemables†		9.95	9.97	8.98
	Index-Linked				
11	Inflation rate 5%	Up to 5yrs.	3.98	3.97	3.72
12	Inflation rate 5%	Over 5 yrs.	3.67	3.67	3.72
13	Inflation rate 10%	Up to 5 yrs.	3.14	3.13	2.56
14	Inflation rate 10%	Over 5 yrs	3.51	3.51	3.57
15	Debs &	5 years	13.04	13.01	11.70
16	Loans	15 years	12.29	12.29	11.32
17		25 years	12.28	12.28	10.98
18	Preference†		11.00	11.00	10.29

‡Opening index 2369.4; 10 am 2360.8; 11 am 2344.5; Noon 2334.5; 1 pm 2333.5; 2 pm 2332.0; 3 pm 2339.3; 3.30 pm 2336.6; 4 pm 2341.9 (a) 9 02am (b) 1 22pm † Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, The Financial Times, Number One, Southwark Bridge, London SE1 9HL, price 15p, by post 34p.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	13	79	8
Corporations, Dominion and Foreign Bonds	0	8	32
Industrials	193	628	793
Financial and Properties	91	311	295
Oils	23	26	44
Plantations	0	1	9
Mines	64	31	65
Others	84	65	99
Totals	468	1,149	1,345

LONDON RECENT ISSUES

EQUITIES

Issue Price	Am'nt Paid up	Latest Renunc. Date	1989/90 High	1989/90 Low	Stock	Closing Price	+or-	Net Div	Times Cov'd	Gross Yield	P/E Ratio
$100	F.P.	–	101	97	Abtrust New Thai Inv.	100	+2	–	–	–	–
§	F.P.	–	61	45	Do. Warrants	56	-3	–	–	–	–
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

TRADITIONAL OPTIONS

- First Dealings Jan 8
- Last Dealings Jan 19
- Last Declarations Apr 5
- For settlement Apr 17

For rate indications see end of London Share Service

Calls in Hyman, Kalt Energy, Specialeyes, Saatchi & Saatchi, Randfontein Ests., Hickson Intl., Excalibur and Amstrad.

LONDON TRADED OPTIONS

THE TRADED Options Market had a busier session yesterday as the five most active stock options traded more than 1,000 contracts and over 15,000 FT-SE 100 index options changed hands. The stock market's further fall prompted private clients to take profits by selling puts, indicating that some now hoped for a halt to the equity market's losses. Meanwhile, institutions were said to be buying back calls to cover short positions.

But the market's brisker pace did not prevent County NatWest announcing a reduction in the number of options market-makers to five from 11, as part of its wider package of job losses aimed at cutting overcapacity. Other dealers foresaw few additional job reductions in the options market and anticipated further growth in business. The latter point of view was reflected in the number of contracts outstanding at the end of business on Monday. Open interest then totalled 883,377 contracts, compared with 868,157 on Friday, while FT-SE open interest stood at 109,472, compared with 107,514.

Meanwhile, total market turnover yesterday amounted to 39,992 lots, against 32,738 on Monday. This was evenly divided between calls and puts, reflecting the market's uncertainty as to the next move in equities. The total was made up of 21,600 calls and 18,392 puts.

The early steep losses sustained by the FT-SE index, followed by its late partial recovery, prompted an active two-way market in FT-SE call and puts. Transactions were mainly small-scale, as larger investors remained on the sidelines, uncertain as to the next move by the cash market. A total of 14,186 contracts changed hands, of which 3,883 were calls and 10,303 puts. Busiest series was the January 2,250 puts, trading 1,724 contracts.

Among the stock options, Rolls-Royce was the busiest. A purchase by BZW of 1,350 March 200 calls at 5p, boosted turnover. The transaction was said to be a closing purchase and was made against the sale of stock. Overall, Rolls-Royce traded 3,126 contracts, of which 2,835 were calls and 291 puts. The March 200 call series was the busiest and traded 1,700.

Option		Calls Jan	Calls Apr	Calls Jul	Puts Jan	Puts Apr	Puts Jul
Alld Lyons (*506)	460	47	70	77	1	73	13
	500	12	41	50	7	21	27
	550	1	16	28	48	49	52
ASDA (*111)	110	5	13	18	4½	9	10
	120	2	13	18	4½	9	10
Brit. Airways (*209)	200	11	22	26	1½	7	12
	220	2	12	15	14	16	22
	240	½	6	9	33	35	34
Brit. Com (*92)	90	6	16	19	3½	7	8
	100	2½	6	15	10½	13	17
SmKl Beecham A (*574)	550	–	56	70	–	17	[illegible]
	600	5	25	42	30	37	42
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Option		Calls Jan	Calls Apr	Calls Jul	Puts Jan	Puts Apr	Puts Jul
Trafalgar (*363)	360	–	35	45	–	30	30
	377	4	–	–	19	–	–
Utd. Biscuits (*349)	360	4	17	27	13	24	26
	390	1½	8	16	42	47	48
Unilever (*663)	650	18½	43½	63½	3½	18½	24
	700	2	18	37	39½	45½	49½
Ultramar (*362)	360	10	28	40	8	20	25
	390	2	17	25	30	3?	40

Option		Calls Feb	Calls May	Calls Aug	Puts Feb	Puts May	Puts Aug
Brit. Aero (*545)	500	60	72	87	5	20	25
	550	27	44	60	22	43	45
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Option		Calls Jan	Calls Mar	Calls May	Puts Jan	Puts Mar	Puts May
Thames Water (*154)	140	17	20	24	1	8	8
	160	2	8	12	8	11	12
	180	1	2½	6	25	26	26
Water Hldg Pkg (*[illegible])	1500	70	120	140	10	40	50
	1550	40	95	130	30	60	60
	1600	20	70	105	70	80	85

Option		Calls Feb	Calls Apr	Calls Jun	Puts Feb	Puts Apr	Puts Jun
Reuters (*1012)	1000	48½	80	105	24½	42½	50½
	1050	23½	55	78½	51½	68½	75½

Option		Calls Mar	Calls Jun	Calls Sep	Puts Mar	Puts Jun	Puts Sep
Amstrad (*51)	50	6½	11	14	4½	8	8
	60	2½	8	9½	12	13	15
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FT-SE INDEX (*2349)

[illegible]

Total Contracts 39,992
Calls 21,600 Puts 18,392
FT-SE Index Calls 3,883 Puts 10,303
*Underlying security price. † Long dated expiry months

UK COMPANY NEWS

Redland spends £46m on French aggregates side

By John Thornhill

REDLAND, the building materials group, is to expand its aggregates operations in France through the acquisition of two companies, SCE Group and SLAM.

This follows the purchase last year of a limestone quarry and two sand and gravel pits. The total consideration for all these acquisitions is £46m.

With the addition of these businesses, Redland will have a combined annual output of 6.5m tonnes of aggregate in France and will run eight rail depots around Paris.

Mr Gerald Corbett, finance director, said Redland was optimistic about the French aggregates market, which he described as being very fragmented. "This will give us the critical mass for serving the Paris market," he said.

The SCE Group owns three hard rock quarries and three sand and gravel pits in central France producing 3.5m tonnes of aggregate per year. Reserves in its hard rock quarries are estimated to last over 40 years, while those in the sand and gravel quarries are estimated at 25 years. The group also owns land and properties around Paris worth more than £8m.

SLAM is an aggregate distributor and stabilised base producer and runs six railheads around Paris handling 1.5m tonnes a year.

Last year, Redland bought one limestone quarry and two sand and gravel pits. In total, the acquired businesses have a combined operating profit of about £4m and net assets are estimated at not less than £40m.

The acquisitions are being financed through French franc borrowings.

H Mackay shares rise 12p on bid talks

By Nikki Tait

A 12p advance to 152p in the share price of Hugh Mackay, the Durham-based carpet manufacturer, prompted an announcement late yesterday afternoon that the company was in discussions which could lead to a takeover offer.

Analysts last night were speculating that Allied Textile Companies, which already owns a 29 per cent stake in Mackay and made a recommended offer for the company in November 1988, might be the most likely suitor. However, Lamont, another textile group, or possibly a European buyer were also mooted suggestions.

ATC declined to comment on the announcement, while Hugh Mackay would not elaborate further. However, its advisers said that discussions were at a fairly advanced stage.

The previous ATC bid took the form of a paper offer with a cash alternative of 330p per share. ATC withdrew its offer under a condition of the agreement referring to its right to withdraw should "material adverse changes" affect Mackay's trading position or prospects.

Since then, Mackay has reported a profits fall in 1988 and then tumbled into the red in the first half of 1989. At yesterday's closing price – ahead of Mackay's formal announcement – the group is capitalised at £9m.

Dutch paper supplier in talks with Robert Horne

By Laura Raun in Amsterdam

BUHRMANN-TETTERODE, the Dutch paper and office supplies group, said yesterday that it was in talks with the Robert Horne Group about a possible takeover of the leading UK paper merchant.

Mr FG Vaandrager, secretary to B-T's board of managing directors, said there had been "a few incidental meetings in recent weeks" but would not elaborate.

Robert Horne revealed last week that Kenneth Horne Family Holdings, which owns 51.3 per cent of the group's voting shares, had been approached about a possible takeover, but refused to comment yesterday.

Market reaction was muted amid a generally lower market. The share price of Bührmann-Tetterode, which had not notified the Amsterdam Stock Exchange of the discussions, dropped Fl 2 to Fl 59.8.

In London, Robert Horne's ordinary shares rose 2p to 401p, while the A non-voting shares closed up 3p at 349p. At these prices, market capitalisation is about £120m.

With profits of Fl 165m on sales of Fl 4.5bn in 1988 Bührmann-Tetterode is the biggest paper group and the 17th largest company overall in The Netherlands.

It derives 47 per cent of its revenue from paper and paper products, 35 per cent from office supplies and 18 per cent from consumer goods, which are being hived off.

Over the past year Bührmann-Tetterode has been on an aggressive buying spree, snapping up whole companies and partial stakes in Europe and the US. Building from its base in paper and paper products B-T has sought to carve out a serious market share in office supplies.

In December it took a 40 per cent stake in Bierbrauer & Nagel of West Germany, and acquired MS Ginn and Publix Office Supplies of the US and Copygraphic of the UK.

Abbey National set for maiden purchase

Abbey National, the banking group, is expected shortly to announce its first acquisition since it became a publicly listed bank last year, writes David Lascelles.

It is on the point of buying Fico France, a French mortgage company with assets of some £400m. The purchase price is believed to be about £40m, close to the company's net asset value.

The acquisition will be part of the Abbey's strategy of gradual expansion on to the Continent where it already has ventures in Italy and Spain.

All-round growth behind Hampson's 39% advance

By Peter Franklin

HAMPSON INDUSTRIES, the acquisitive West Midlands-based holding company with interests including aluminium refining, precision engineering, office cleaning and home improvements, yesterday reported a 39 per cent increase in pre-tax profits for the six months to end-September.

Mr John Wardle, chairman, said that for several years the second half had been significantly better than the first and this would certainly be the case this year.

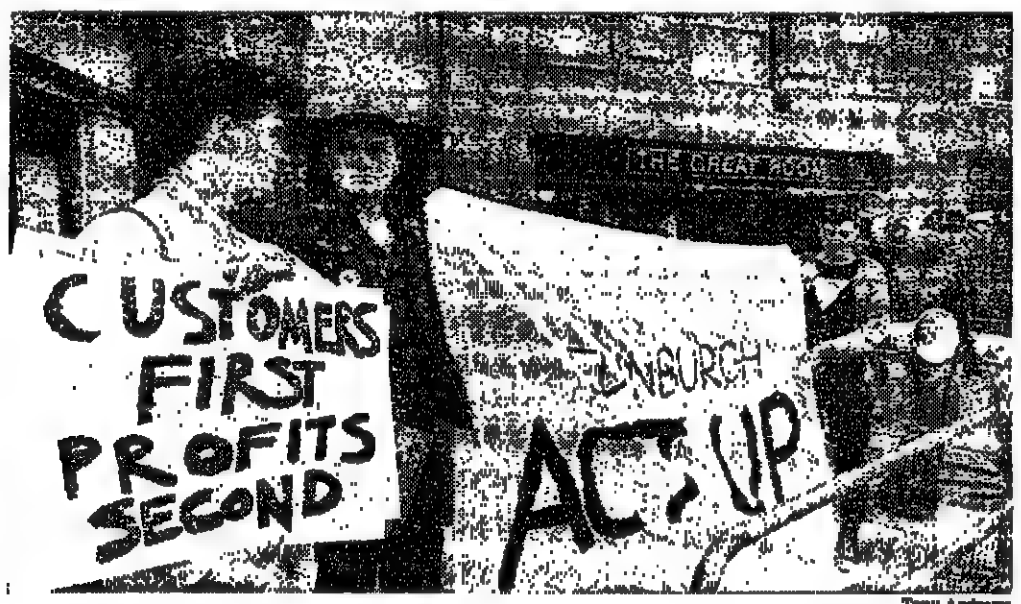
The pre-tax figure of £3.27m (£2.35m) was struck on turnover 21 per cent higher at £33.54m (£27.76m).

In August 1988 the company eliminated gearing with a £4.9m rights issue and this remains the case, in spite of its continuing expansion.

Mr Wardle said that he was aware that doubts had been expressed with regard to Hampson's interests in the home improvements and upholstered furniture market. However, he said, "both these activities are doing very nicely, thank you".

All divisions had contributed to the result, said Mr Chris Clayton, finance director, including the industrial cleaning division, which after a complete management restructure, was showing signs of an upturn.

After tax of £1.17m (£851,000), earnings per 5p share rose to 3.52p (2.97p) or 3.28p (2.94p) fully diluted. The interim dividend is raised to 0.6p (adjusted 0.458p).



Tony Andrews

Wellcome's annual meeting yesterday was dominated by questions from AIDS activists seeking a reduction in the price of Retrovir, the only drug licensed to treat AIDS, writes Vanessa Houlder. The tone was in keeping with that of a small demonstration outside London's Grosvenor House (above), which described the AGM as "a gathering of AIDS profiteers." By the end, the animosity was reciprocated by some other shareholders who, tired of the lengthy speeches and criticisms, jeered and drowned questions with the noise of clapping.

However, not all the dialogue between the board and the AIDS activists – members of ACT UP, a pressure group – was ill-tempered. A halving of the US recommended dosage of Retrovir announced yesterday was described by Mr Rob Archer, a Edinburgh-based member of ACT UP, as "a goodwill measure to the HIV community." Directors also managed to go some way to satisfying questions about studies on intravenous drug users and the use of Zovirax in tongue infections of HIV sufferers.

However, criticisms of Wellcome's reluctance to give out detailed information on Retrovir, its pricing policy on Zovirax and the alleged refusal of Sir Alfred Sheppard, the outgoing chairman and chief executive, to meet AIDS activists were less easily silenced. Nevertheless, throughout his valedictory AGM, Sir Alfred received applause, cheers, speeches and even an embrace from one enthusiastic shareholder.

Marina shares sail up 77p

Shares in Marina Development Group yesterday sailed up 77p to 485p after it was revealed that the company was in discussions which might lead to a bid being made for the marina and boatyard operator.

Yesterday morning, Partchester Holdings, an unquoted leisure company run by Mr Keith Partridge and Mr Allen Timpany, announced that it had acquired an option to buy 28 per cent of Marina's shares before April 20 and was in talks with Marina with a view to making a recommended offer.

Marina later confirmed that it was in discussions. But there was some confusion over a parcel of 28 per cent of Marina's shares owned by Priest Marians, the property company.

Stanler Miller warns of fall

Shares in Stanley Miller dropped sharply yesterday following the building contractor's announcement that its 1989 results would fall "considerably short of" the previous year's levels.

The shares plunged 25p to 172p, more than wiping out Monday's 16p gain. Pre-tax profits in 1988 amounted to £1.25m.

The Newcastle-based group attributed its poorer-than-expected performance to its construction activities, which it said have had "a disappointing year as a whole."

Miller reported first half pretax profits of £22,000 (£315,000), reflecting higher interest rates on the group's development-related borrowings.

Arbitrageurs may be only losers in SeaCon battle

By Andrew Hill

FEW TEARS will be shed in New York this week for the arbitrageurs who may end up as the only losers in the final episode of the bid for Sea Containers.

Mr James Sherwood, Sea Containers' president and the central character in the 33-week battle for control of the company, announced on Monday that he would recommend a new $1bn deal to his fellow directors at tomorrow's board meeting.

Subject to shareholder approval, the agreement would allow the original hostile bidders Tiphook, the UK container rental company, and Stena, the *private Swedish ferry operator*, to buy most of their prey's container and Sealink ferry operations for about $1bn. That includes the value of Stena's stake in its target which will be transferred to Sea Containers.

At one point early in the bid, arbitrageurs were thought to hold speculative stakes making up about 15 per cent of Sea Containers' equity. Those who bought shares near their peak of $72½ in June must now await details of Mr Sherwood's latest plans or sell at a loss.

"The arbs have just been so beaten up and battered they're not really keen to volunteer comments," said one observer.

Sea Containers shares fell 11 per cent on Monday, recovering yesterday to trade at more than $62, up $2½.

Mr Jay Goodgal, a *New Jersey* analyst, said yesterday: "People are wondering what a modified recapitalisation is going to look like – I think it's going to be better for long-term shareholders than short-term, but the beauty of the old plan was there was some certainty to it."

Mr Sherwood hopes the new deal will match his original plan to offer stockholders $70 per share. Few obstacles stand in his way.

The buyers lined up for the container assets under the old plan – Tiphook's container rental rivals Itel and Genstar – refused to comment yesterday on suggestions that they might object to it and a higher bid after nine months of legal and financial wrangling seems unlikely. As one UK analyst *put it yesterday*: "I think that most sensible people will realise that the orange has now been squeezed about as dry as it will go."

Empire shows interim deficit

By Maggie Urry

EMPIRE STORES, the agency mail order group, suffered a sharp fall into losses in its half year to November 11, and is passing the interim dividend.

The shares fell 3p to 122p, sustained, analysts said, by the presence of three major shareholders with over 50 per cent of the group's equity between them and consequent hopes of a takeover bid.

The group incurred a pre-tax *loss of £1.73m (profit £2.68m)* but this included an exceptional profit of £1.38m arising from the sale of its debt collection business. Loss per share was 7.91p compared to earnings of 4.49p.

Sales increased 3.3 per cent to £115.2m (£11.49m). But Mr Gratwick, chairman, said the *number of agents had risen by* 11.5 per cent meaning the sales per agent were around 8 per cent lower.

Mr Gratwick said that bad debts had risen by £2m, which had also affected profits. This was now coming under control *as credit scoring systems had* been changed. Selling the group's debt collecting business to a larger competitor, which would still work for Empire, would save the company about £600,000 in a full year, he estimated.

On a more optimistic note, Mr Gratwick said the second *half had got off to a better* start with the opening four weeks of trading well ahead of budget.

However, he said "there is still a long way to go to the year end." A decision on whether to pay a final dividend *would be taken then*. In the previous period, covering the 65 weeks to end-April, a total dividend of 5.525p was paid, including the interim of 1.95p.

Rental income boost for Palmerston

By Paul Cheeseright, Property Correspondent

PALMERSTON HOLDINGS, the property investment and trading company in which the Berger family is the largest shareholder, yesterday announced a marginal increase in interim pre-tax profits but a 46 per cent rise in rental income.

Profits for the six months to end-September were £1.6m compared with £1.54m in the same period of 1988. Earnings grew more strongly, expanding from 5.6p to 6.76p.

Palmerston's aim is to build up rental revenue from its property investments and to reduce the relative importance of property trading.

Rental income in the first half was £3.36m (£2.3m) and trading profits grew to £3.66m (£1.35m).

There was a sharp increase in finance costs to £3.67m (£1.63m), reflecting recent property purchases, not least those in south east London, Wembley and Dundee.

Palmerston is unlikely to produce figures for the full year much different from those of 1988-89. There will be more disposals in the second half, and the full impact on income of rent reviews coming through in the next few months should be felt during the next financial year.

The interim dividend is raised from 2.75p to 3.025p.

Allied-Lyons swallows up second doughnut chain in US

By Clare Pearson

ALLIED-LYONS, not content with acquiring Dunkin' Donuts for £207m two months ago, is munching up Mister Donut, another leading US doughnut and coffee franchise chain.

The food and drinks group said yesterday it was buying the company from International Multifoods, the US food processing company, for an undisclosed sum, thought to be about £20m.

Mister Donut is to operate as a subsidiary of Dunkin' Donuts, a much larger operation bestriding the US market with 1,600 stores. It also runs a further 250 outlets in Japan and Europe.

Although much smaller, Mister Donut claims to rank number two in the US.

It has 558 outlets, of which 83 are in Quebec, Canada, with estimated sales for the fiscal year 1989 of $156m.

Allied-Lyons said figures were not available on what share of the North American doughnut and coffee shop market the group would now command.

It added that there should be scope for improving the sales per store of Mister Donut, which is lower than that of Dunkin' Donuts.

There should also be merger benefits in administration and supply to franchisees.

The consideration for Mister Donut was officially described as representing less than 1 per cent of Allied-Lyons' net assets, which works out at £30m.

Allied is keen to develop the Dunkin' Donuts' operations in Europe, especially in the UK where it currently has just four outlets.

The group owns three other North American food companies. These are Baskin Robbins, leader in the franchised ice cream store market, Tetley, which makes coffee and tea, and DCA Food Industries, which produces a variety of ingredients, including doughnut mixes, for the food processing industry.

Anglo Utd raises £50m from Coalite sale

By Andrew Taylor, Construction Correspondent

ANGLO UNITED, the mining and fuel *distribution* group, has sold Coalite Building Supplies to CRH, the Irish building materials company, for £50m.

Anglo acquired the builders' merchants operation last summer when it took over the Coalite fuel distribution business in a contested £478m bid.

The sale to CRH means that Anglo has raised about £135m from the sale of non-core Coalite companies.

Previous disposals included the sale of Coalite's quarrying activities for £53.5m to Charter *Consolidated, part of the* Anglo American Corporation of South Africa, and the sale of Coalite's waste management and industrial cleaning businesses for *some* £26m to BET, the business services conglomerate.

Mr David McErlain, chairman, said the disposal of other Coalite businesses would take place shortly.

Last year's takeover was financed by a £200m short term loan and a £270m six year loan arranged by Samuel Montagu. Anglo intends to repay the £200m loan by the end of this year.

The builders' merchants business was expected to be one of the more difficult assets *to dispose of given the poorer* outlook for UK construction generally and the sharp fall in British housebuilding and housing repair and maintenance work.

Mr Tony Barry, CRH's chief executive, said the purchase of Coalite Building Supplies would increase the Irish group's national coverage in the UK. Keyline, CRH's existing builders' merchants business *has 54 branches* concentrated in Scotland, southern England, South Wales and Yorkshire.

Coalite, the tenth largest builders' merchants in the UK, has 36 branches concentrated in Yorkshire and Humberside, the Midlands and East Anglia. In the year to March 31 1989, it generated trading profits of £5.8m on sales of £77m. Net assets were then £26.7m.

The combined Coalite and Keyline businesses would have a annual turnover of £250m from 90 locations and would be the largest builders merchants dealing in "heavyside" building materials, Mr Barry said.

CRH, which has its operations evenly split between the UK, continental Europe, the US and Ireland, increased pre-tax profits by 39 per cent to I£27.2m in the 6 months to end-June 1989. It said its strong cash flow should mean that its debt equity ratio at the end of this year should be *similar to that* at the end of 1989 assuming no further major acquisitions.

Matthew Clark declines as agencies are lost

By Philip Rawstorne

MATTHEW CLARK and Sons (Holdings), the wines and spirits distributor, yesterday reported pre-tax profits 9.3 per cent down at £2.99m for the six months to end-October.

Turnover from group activities, excluding customs and excise duty, was 43 per cent lower at £22.27m (£38.8m).

The figures reflect the loss last year of the Martell and Irish Distillers' agencies but Mr Francis Gordon Clark, *chairman, said that although* full year profits may not match the 1988-89 record of £8.4m he believed "the company will emerge from this difficult transitional year commendably well."

Earnings per share fell from 15.3p to 12.7p but operating profit margins rose from 7.7 per cent to 11.7 per cent.

Clark, which took over from HP Bulmer as agent for Domecq sherries and Fundador *and Carlos I brandies* on January 1, reported that trade throughout the summer had not been buoyant and profits of JE Mather, the Leeds-based wine and sherry business, and Malcolm Cowen, a specialist drinks supplier, remained at *about last year's level*.

Mr Gordon Clark added: "All companies reported strong sales in November and December but there are indications that retailers are still carrying substantial stocks and sales since Christmas have in general been slow."

But the group's Finsbury Distillery, now benefiting from the move of production of Stone's Ginger Wine to Leeds, had returned higher profits; *and significantly better results* had been produced by IH Baker in Australia, where interim profits were 70 per cent higher at £250,000. Sealark Transport, the transport and warehousing services subsidiary, had also moved into *profit*.

An interim dividend of 5.75p (5.5p) is declared.

● COMMENT

Matthew Clark seems to have recovered remarkably well from the blows of losing the Martell and Irish Distillers' agencies. The acquisition of the Domecq sherries and brandies distribution, together with a number of smaller agencies, has been a boost to morale as well as plugging some of the gap. In spite of less than buoyant trading conditions, the worst is over; and with IH Baker and Sealark improving, and profit margins substantially increased, the group can begin to look forward to renewed growth. BZW expects full year profits of £7.5m – not much below last year's record £8.4m if exceptional items are stripped out. That would put the group on a prospective p/e of 10.3, 8 per cent to 10 per cent cheaper than the market.

Debenham Tewson ahead but margins cut

By Paul Cheeseright, Property Correspondent

DEBENHAM TEWSON & Chinnocks yesterday brought the season of chartered surveyors figures to a close with interim pre-tax profits up 19 per cent, the largest increase among the five companies recently reporting.

Profits for the six months to October 31 were £4.17m, against £3.51m in the same period of 1988. The interim dividend is raised 20 per cent to 2.4p, payable from earnings per share of 8.58p (7.26p).

Baker Harris Saunders, de Morgan and Savills all reported reduced profits. Fletcher King, however, unveiled a 10 per cent increase in profits.

But all the chartered surveyors have been affected in varying degrees by the slowing down of the commercial property market.

This has been most obvious in the erosion of margins. In the case of Debenham Tewson the increase in pre-tax profits was less than half that in turnover, ahead 42 per cent to £20.23m.

Debenham Tewson has been seeking to maintain a tight hand on costs and yesterday Mr Anthony Turnbull, chief executive, said, "Cost control remains the most important thing for me to do over the next year or 18 months, but this cannot be at the expense of the quality of service."

Last September, Debenham Tewson trimmed back £2m from its budgeted costs by reducing the scale of some expansion programmes and putting off the expansion of its support staff.

The size of Debenham Tewson and the diversity of its activities offers it some protection against the downturn of the market, because whatever happens on the buying, selling and leasing side, where decisions are taking longer to reach, it offers a spread of professional services for which demand is likely to remain constant.

In spite of a high level of instructions and the existence of contracts like that of property valuation for privatising National Power, the company is guarded about the prospects for the immediate future.

"We have modest optimism that we will continue to make positive progress. We hope to see good figures at the end of the year," Mr Turnbull said.

In the year to March 1989 Debenham made taxable profits of £8.97m.

NEWS DIGEST

Cantors up in spite of conditions

CANTORS, the high street retail furniture group, increased first half pre-tax profits from £926,000 to £952,000, in spite of difficult trading conditions.

But on prospects, Mr Harold Cantor, chairman, said he hesitated to be any more optimistic than to hope last year's £3.04m profit would be equalled.

In the six months ended October 28 1989 the group, which operates from 80 stores, lifted turnover to £22.64m (£19.48m) and operating profit to £1m (£846,000).

Mr Cantor said hire purchase trading rose so there had been an increase of £50,000 (decrease £80,000) in the provision for unearned profit and collection costs.

However, borrowings remained low and led to an interest charge of only £2,000 (£28,000). Earnings worked through at 4.53p (4.38p) and the interim dividend is again 1p.

All sides contribute at Chelsea Man

Chelsea Man, the USM-quoted mens clothing designer and retailer, announced pre-tax profits of £2.1m for the 14 months to June 3. For the year to April 2 1988 they were £1.58m.

Turnover amounted to £19.2m (£5.2m) and all trading subsidiaries contributed to the result, said Mr Sam George, chairman. The recent acquisitions, Grant Seward and Shirt Manufacturing, had been made profitable.

Trading in the first part of the current year had exceeded expectations, he added. Despite market difficulties the forecast was for improved trading.

A final dividend of 2.1p is recommended for a 2.9p total. Earnings worked through at 17.9p (9.19p) per share.

Osprey Comms doubles to £670,000

Continued growth from core businesses combined with increasing profits from acquisitions led to Osprey Communications doubling pre-tax profits to £670,000 for the half year ended November 1989.

The outcome compared with last time's £322,000, and was generated on turnover up 75 per cent to £13.9m (£7.98m). The group is involved in advertising and marketing services.

Mr John French, chairman and chief executive, said the six companies brought into the group had settled in completely, and new business and new cross-referred business continued to grow.

Earnings were 4.12p (3.26p) and the interim dividend is raised to 1.35p (1.2p).

Crossroads Oil losses at £0.09m

Crossroads Oil Group, formerly known as Lysander Petroleum, reported reduced pre-tax losses of £93,000 for the interim period to end-September, against £151,000.

The results of this USM-quoted company included £109,000 in interest charges resulting from the acquisition of the assets of COG V. The company added that as about 50 per cent of the $2.8m convertible debentures issued as part of the purchase had been converted the interest charge would be lower.

Turnover more than doubled to £509,000 (£205,000) reflecting the progressive increase in monthly oil and gas revenue. Losses per share were 0.31p (0.52p) after a nil tax charge.

Jurys Hotel well above last year

In the first half of its current year, Jurys Hotel Group raised pre-tax profit by 41 per cent, and exceeded the *I£2.27m* (£2.12m) earned in the whole of the previous year. The group operates hotels in Dublin, Cork and Limerick.

Trading in the second half does not match the first, but directors expect the year to show a satisfactory improvement over 1988-89.

In the half year to October 31 1989, turnover rose 17 per cent to I£11.54m (I£9.84m), and the profit increased from I£1.65m to I£2.33m (£2.18m). Earnings were 10.27p (7.08p) and the interim dividend is lifted to 2p (1.6p).

PUBLIC NOTICES

MMC INVITES EVIDENCE ON THE ACQUISITION BY GENERAL UTILITIES OF SHARES IN THE MID KENT WATER COMPANY

The Monopolies and Mergers Commission are inquiring into General Utilities' acquisition of shares in Mid Kent in March 1989 and would like to hear from any person or organisation with information or views.

General Utilities is owned by Compagnie Generale des Eaux.

The Commission will be looking at the possible effects of the acquisition on the public interest.

The Commission would like evidence in writing by *29th January 1990 to be sent to: The Reference* Secretary (General Utilities/Mid Kent Water Inquiry), Monopolies and Mergers Commission, New Court, 48 Carey Street, London WC2A 2JT.

MMC INVITES EVIDENCE ON THE ACQUISITION BY SOUTHERN WATER PLC OF SHARES IN MID-SUSSEX WATER COMPANY

The Monopolies and Mergers Commission are inquiring into Southern Water's acquisition of shares in Mid-Sussex in February 1989 and would like to hear from any person or organisation with information or views.

The Commission will be looking at the possible effects of the acquisition on the public interest.

The Commission would like evidence in writing by 29th January 1990 to be sent to: The Reference Secretary (Southern Water/Mid-Sussex Water Inquiry). *Monopolies and Mergers* Commission, New Court, 48 Carey Street, London WC2A 2JT.

UK COMPANY NEWS

New chief concentrates on consolidating success

Peter Marsh talks to Ernest Mario, chief executive of Glaxo, about his plans for the future

GLAXO, Britain's biggest drugs company, has ordered a series of measures to hold back rises in costs, especially in the area of research and development and administration.

Dr Ernest Mario, chief executive, said yesterday the measures had become necessary as a way "to consolidate the gains of the past 10 years and to make sure we don't go too far out on the curve".

Dr Mario, an American, took over the number two job at Glaxo last May after heading the company's US operations. He reports to Sir Paul Girolami, the chairman.

The 51-year-old former pharmacist is increasingly taking over responsibility for the direction of Glaxo from Sir Paul. The chairman, who is 64 next week, has been the main architect of Glaxo's rapid growth over the past seven years, becoming one of the world's top four drugs companies.

Yesterday Dr Mario, who has a relaxed, easy-going style, gave a wide-ranging account of his hopes for Glaxo and the changes he is attempting to introduce within the company. As part of the cost-restraining measures, Glaxo will:

- prune this year's R&D budget from its expected level of £440m.
- delay by one year a grandiose, £600m research centre planned for Stevenage, Hertfordshire. Dr Mario ordered a review of the scheme last year after cost estimates for the project were going "absolutely bonkers";
- hold recruitment of administration staff in the US, a fast-growing region for Glaxo and where the company gains nearly half of its £2.5bn annual sales. Staff in this category, who increased by 30 per cent in the past year to 600, are being kept constant for the time being.
- review travel by senior managers, which is estimated to cost Glaxo about £10m a year.
- axe from its research programme work on an AIDS drug called carbovir which Glaxo licensed in 1988 from the University of Minnesota in the US. Dr Mario said the drug had not shown sufficient promise but that other work on AIDS within Glaxo looked "very interesting".

Dr Mario said that last year he had felt Glaxo might be accelerating its research spending "faster than necessary". The company's outlays in this area have risen rapidly in recent years, from £240m in 1987-88 to £330m last year.

The Stevenage laboratory centre has been subject to escalating cost estimates in the past 12 months. During the autumn, it looked as if it might cost £800m, £300m above the target figure when the project was announced in 1988.

At this point Dr Mario removed responsibility for supervising the project from Dr Richard Sykes, Glaxo's highly regarded research director, and ordered a strict re-examination of costs.

The first phase of the research complex should open around the end of 1992, a year behind schedule. Glaxo is estimating the total costs at about £600m. Dr Mario thinks this is reasonable given the general inflation in construction costs in Britain over the past year.

In his first eight months in his new job, Dr Mario has spent two thirds of the time away from Glaxo's London head office and says he has met "several thousand" of the company's 30,000 staff around the world. When any of the 350 employees at Glaxo's headquarters have a birthday, Dr Mario invites them to have breakfast with him.

He remains optimistic about Glaxo's future and in particular about the products passing through the late stages of its development pipeline. Some of these medications, due to enter the market in the next few years, might grow to have annual sales of several hundred million dollars a year, according to analysts.

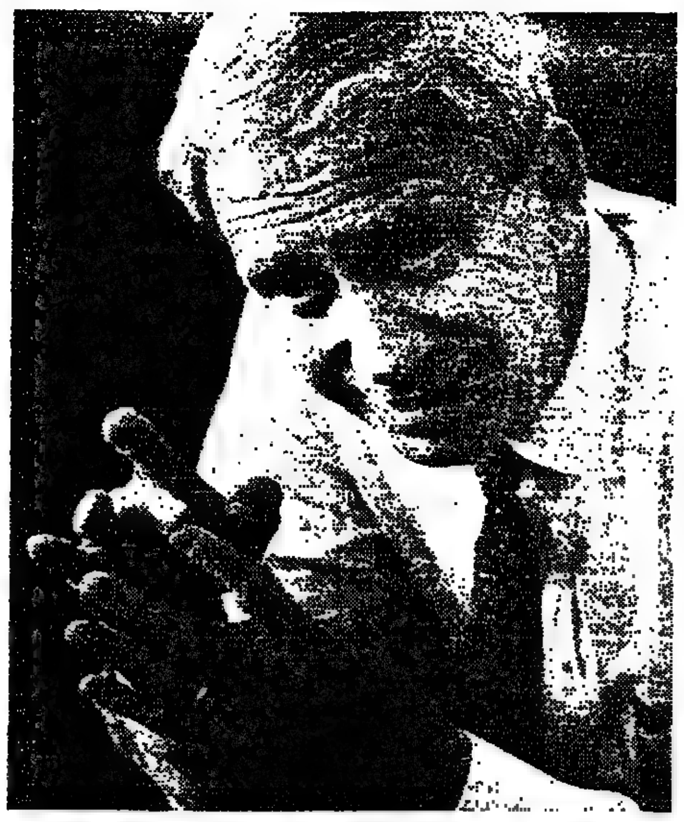
Zantac, the company's anti-ulcer product, is the world's top-selling drug with annual revenues of more than £1bn. Sales are holding up well although Dr Mario recognised they would begin to fall off during the 1990s.

He was highly confident about about the new products, which include:

- Zofran, also known as ondansetron, for curbing sickness in patients taking cancer drugs. Dr Mario said he had indications that the product would be approved within two months for use in the UK. Approval in France was also imminent, while he hoped that the US Government would agree to Glaxo marketing the product in the US by the end of the year.
- Salmeterol, an anti-asthma formulation. Glaxo would be ready in March or April to file for permission to sell the drug in Europe. Filing in the US would probably begin next year. The drug could be approved 12-18 months after these dates.
- Sumatriptan, for treating migraine. Filing for product licences for some forms of this drug would begin worldwide in the summer.
- Fluticasone, which is for use against skin diseases. Glaxo would start the process of gaining product approvals later this year.

Dr Mario said he had examined the general issue of holding costs largely because "our plate will be full" over the next few years with marketing the new products. "I would rather we spent our money in product launches rather than in overheads," he said.

In spite of the plan to review costs in some areas, Glaxo was not reconsidering its intention to expand worldwide research staff from 5,000 to 6,500 during the next few years. These people would be needed to keep up the general thrust of the company's expansion, he said. "There is plenty for them to do."



Dr Ernest Mario: headquarters staff are invited to have breakfast with him on their birthday

Commission from 1986 account helps Sturge to £31.2m

By David Owen

PROFIT COMMISSION arising from the strong 1986 underwriting account helped to propel Sturge Holdings, the largest underwriting agency in the Lloyd's insurance market, to pre-tax profits of £31.2m for the year to September 30.

The result compared with £17.2m in 1988 and was somewhat ahead of forecast. Turnover climbed by 68 per cent to £43.3m (£25.7m).

The profit commission soared to £25.9m in the latest period compared with just £9.9m received in 1988. Currency fluctuations contributed some £800,000 to the current year's total.

By contrast, underwriting agency fee income was relatively flat at £12.8m (£12.3m). Gross aggregate premium capacity of the group's managed syndicates amounted to £1.19bn.

Investment in new systems and some staff reductions helped Wise Speke, the group's stockbroking subsidiary, to return to profitability after incurring heavy losses in 1988.

In all, Wise Speke contributed £100,000 to pre-tax profits. An upturn in Stock Exchange activity, Mr David Coleridge, the chairman, said, would generate "a considerable improvement in profitability."

Sturge characterised as "modest" the impact on the 1989 underwriting account of large claims arising from last year's substantial increase in natural and other disasters.

"We are not shedding any tears over the hurricanes and the earthquakes," Mr Coleridge said. "Over the next year, we think that we should be able to continue on at least a marginal upward trend," he added.

The number of members of Lloyd's (or Names) looked after by Sturge continued to decline, from 2,633 to 2,454, over the course of 1989. The total allocated premium limits of these Names is still rising, however – by 2.2 per cent for 1990 to £970m.

In line with Mr Coleridge's expectation that the number of agencies operating within Lloyd's will decline to between 100 and 150 by the end of the decade, Sturge continues to explore opportunities to acquire other Lloyd's agencies.

With earnings per share rising from 19.6p to 36.3p, a final dividend of 10p is recommended. This brings the total dividends as forecast to 15p (10p).

The shares climbed 4p to 284p.

Eurotherm maintains its steady growth with £17.6m

By John Thornhill

EUROTHERM International, the industrial process control manufacturer, lifted pre-tax profits by 11 per cent from £15.77m to £17.56m in the year to October 31. Turnover rose by 16 per cent to £149.03m.

Mr Jack Leonard, chairman, said the group had made satisfactory progress towards achieving its long term objectives, but had been hindered by an unhelpful economic environment, higher interest charges, and development delays with several new products.

Some 70 per cent of the group's sales came from overseas and the company claimed that this helped protect it from the economic vagaries of any one region. Eurotherm also sees emerging opportunities in eastern Europe.

The profit breakdown by division was: TCS £2.6m (£1.7m); SSD £3.6m (£3m); Eurotherm £5.3m (£5m); Chessell £3.2m (£3m); and others £2.9m (£3m).

Mr Leonard said he was convinced the company was well placed to continue its steady rise. The order book at the year end was 30 per cent higher than the previous year and stood at £30m.

Earnings per share grew by 12.3 per cent to 26.4p (adjusted 23.5p). The final dividend of 4.55p will make a total of 6.3p (adjusted 5.33p).

COMMENT

Eurotherm has come a long way since four engineers founded the business 25 years ago in a converted stable near Woking with capital of £16,000. Indeed, the company became something of a glamour stock after coming to the market in 1978 and being massively oversubscribed. But in the last few years Eurotherm has picked up a rather dull stock market image and its share price has consequently languished, much to the apparent frustration of the directors who argue Eurotherm deserves better. They have a point. Any company which can boast such a steady, although admittedly unspectacular, profits record and with good defensive qualities in its overseas activities would seem to merit more than a prospective rating of just under 10, assuming pre-tax profits of about £21m. Whether Eurotherm will reap the share price gains that its record and prospects seem to suggest is a moot point; it might first need a change of perceptions in the City. But for those prepared to wait, Eurotherm looks a a cheap and solid investment in uncertain times.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres-ponding dividend	Total for year	Total last year
Cantors ....int	1	Apr 12	1	-	3
Chelsea Man § ....fin	2.1	-	2.1	2.9‡	2.9
Clark (Matthew) ....int	5.75	Apr 6	5.5	-	13
Debenham Tewson ..int	2.4	-	2	-	7
Empire Stores ....int	nil	-	1.95	-	5.525
Eurotherm ....fin	4.55	Apr 10	3.867*	6.3	5.33*
Hampson Inds ....int	0.6	Mar 12	0.458*	-	1.916*
Jurys Hotel ....int	2♣	-	1.6	-	4.5
Ldn & Clydeside§....fin	4.8	Feb 27	4	6.3	5.7
Osprey Comms ....int	1.35†	Apr 6	1.2	-	3.6
Palmerston Hldgs....int	3.025	Mar 5	2.75	-	8.6
Sommerville (Wm) ...int	1	-	1	-	1
Sturge ....fin	10	Apr 6	6.75	15	10

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. §§Unquoted stock. ♦Third market. ♣Irish currency. ‡For 14 months.

Receivers called in at Staks

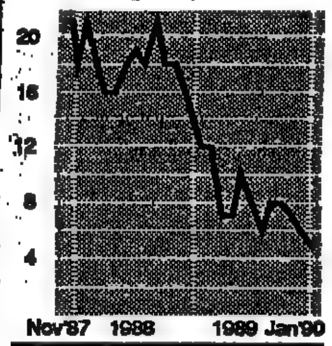
By Andrew Bolger

RECEIVERS were yesterday appointed at Staks Holdings, the cane furniture retailer which was floated on the Third Market two years ago. The shares were suspended at 5½p, against a high for last year of 17½p.

Staks plunged into the red last year after a troubled warehouse move, over-rapid expansion of its retail chain and intense competition in its wholesale business.

Staks Holdings

Share price (pence)



In the year ending April 1989 it incurred a pre-tax loss of £1.64m, compared with profits of £234,000. Turnover rose to £9.63m (£6.80m).

Since then the company has pulled out of its wholesale activities and there have been major board changes, including the resignation last April of Mr William Ward, the managing director, and Mrs Annette Ward, his wife and a non-executive director.

The new chairman is Mr Julian Markham, who also heads Glengate Holdings, the private property developer.

He became chairman of Staks in September following Glengate's purchase of a 14.99 per cent stake. He said at the time of the results that disagreements with board members who had since left had been disruptive, expensive and demoralising for Staks.

Price Waterhouse and RC Boys-Stones were appointed as administrative receivers.

Northern Industrial Improvement higher

Northern Industrial Improvement Trust made pre-tax profits of £203,900, against £180,800, in the half year to end-September 1989. Earnings per share increased from 10.45p to 11.72p after tax of £61,000 (£53,000). Total income for the period was £226,900 (£200,800).

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

TODAY

Interims- Barbour Index, Dalepak Foods.
Finals- Burndene Investments, First Leisure, Greenwich Resources, Group Development Capital Trust, Lookers, Trilion.

FUTURE DATES

Interims-	
Electron House	Jan. 24
Lebowa Platinum Mines	Jan. 24
McKay Securities	Jan. 25
Menzies (John)	Jan. 29
Park Food	Jan. 25
Raglan Property Trust	Jan. 25
Reject Shop	Jan. 19
Rustenburg Platinum	Jan. 24
Finals-	
Chrysalis	Jan. 24
Heavitree Brewery	Jan. 25
Lonrho	Jan. 25
Quotient	Mar. 15
RCO	Jan. 31
St Modwen Properties	Feb. 7
Sedgwick	Feb. 27
Soundtracs	Jan. 18
Whitegate Leisure	Jan. 26

COMMODITIES AND AGRICULTURE

LME aluminium price touches 31-month low

By Kenneth Gooding, Mining Correspondent

THE ALUMINIUM price fell again yesterday on the London Metal Exchange, touching the lowest level for 31 months, and some analysts suggested that only substantial cuts in production would reverse the downward trend.

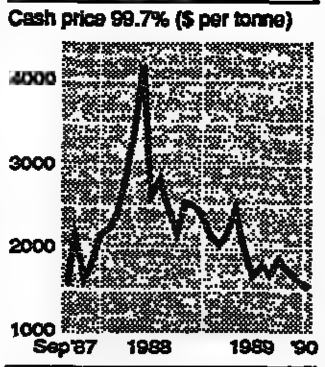
In real terms the metal's price is very close to the level reached at the bottom of the mid-1980s recession so it could not have much further to fall, pointed out Mr Colin Pratt, an analyst with the Commodities Research Unit in London.

Aluminium for immediate delivery was down by another $11 to $1,509 a tonne, very close to the $1,500 low established in June 1988 during the first week of trading in high grade aluminium on the LME.

Mr Pratt said demand for aluminium remained high, plants were working at near-capacity levels and only a small supply surplus was expected this year, possibly between 100,000 and 200,000 tonnes. "But a market in a bearish frame of mind takes some shifting. It will take some significant smelting cuts to jolt the price back up again."

Aluminium

Cash price 99.7% ($ per tonne)



Mr Pratt also pointed out that producers were under pressure from rising costs, particularly for alumina, the raw material for primary aluminium, which has risen nearly 50 per cent in price in the past year to between $400 and $450 a tonne. "About half the smelters in the world would show cash losses if they had to pay this price for alumina. Fortunately, many of them have contracts at lower prices," he added.

The European Aluminium Association recently estimated that western world primary aluminium consumption last year was about 14.5m tonnes, up 1 per cent on 1988, compared with output of 14.4m tonnes. It predicted another "moderate" improvement in demand this year and a larger rise in production.

Go-ahead for Brazil's methanol imports

By John Barham in Sao Paulo

A BRAZILIAN federal court has approved imports of methanol to be used as a motor fuel, thus averting the risk of rationing.

In December, a lower court had banned methanol imports until the Government presented an environmental impact study showing that methanol could be safely added to alcohol and used as a motor fuel.

Cacex, the Government's foreign trade department, is now expected to begin issuing import licences for methanol and the local authorities in Sao Paulo and Rio de Janeiro should revoke bans on using methanol within their city limits.

Brazil faces a critical shortage of fuel alcohol, which fuels over a quarter of its passenger cars, because demand has risen sharply over the years, while production of the sugar cane from which it is distilled has stagnated. Since 1985 consumption has increased 48 per cent.

Producers forecast a 1.7bn litre shortfall in alcohol output in the coming three to four months. Brazil consumes over 12bn litres of alcohol a year. Supplies are only expected to return to normal with the beginning of the sugar cane harvest in May.

It is unclear how much methanol Brazil must still import. In December, government officials said imports of up to 1.5bn litres would be necessary. That forecast is now considered exaggerated. Mr Reynaldo Alcantara, an official of Sao Paulo's Copersucar sugar and alcohol co-operative, said: "The situation is becoming less drastic. We thought it would be difficult to import enough, but we have found ethyl alcohol and methanol all over the world."

Citrus growers count frost losses

By Henry Hamman in Miami

FLORIDA CITRUS growers are still counting their losses from a devastating Christmas weekend freeze. But they fear the damage to the industry may take several years to repair.

"A lot of the growers are calling this one of the lost severe freezes of the century," said Ms Cathy Clay of Florida's Department of Citrus. She said the Department was not yet ready to put a dollar figure on the losses, but estimated that immediate losses to the industry would be more than $100m.

The US Department of Agriculture's January crop report p+redicted a drop of nearly 30 per cent over previous estimates of the orange crop and more than 13 per cent for the grapefruit crop. Florida is the world's second biggest orange producing area and the largest producer of grapefruit. Some 94 per cent of Florida's oranges are used for juice.

Ms Clay said the industry expected more bad news when February's crop estimates are compiled, as the January report only covered the period up to January 1. Industry analysts said the USDA January report might well have underestimated the damage. And that report covered only losses to this year's fruit, not damage to the trees themselves.

Growers are at work trying to save damaged trees by pruning off dead twigs and branches. Some of the trees that now appear to have survived will die from delayed shock, however, and some survivors will produce less.

Some growers had only recently recovered from the impact of the last severe freeze in 1983 and face the prospect of replanting groves that were destroyed then.

New trees will take at least three years to produce mature fruit in commercial quantities. All this means that the effect of the 1989 freeze will be felt well into the 1990s.

"To a great extent, the long term impact will be influenced by tree conditions. And no-one will be able to determine tree conditions for months, even years, to come," said Mr Ernie Neff, a spokesman for Florida Citrus Mutual, the biggest growers' organisation.

In 1988 Florida's citrus census showed almost showed that almost 700,000 acres of citrus groves, planted with about 69m trees. The next major survey to determine the state of those trees is not due until late this year, with results available only in 1991.

The freeze came at a time when Brazil, the world's biggest producer of orange juice, was attempting to rebuild stocks that had been severely depleted by two years of drought. Despite record production this year, some analysts say current Brazilian stocks will be insufficient to meet demand, pushing juice prices higher in the coming months.

Last Friday March orange juice futures on the New York Cotton Exchange were at $1.935 a lb. One analyst, Ms Judith Ganes of Shearson Lehman Hutton in New York, said the price could go above $2.15 a lb.

Another factor will drive prices high, Ms Ganes said. "People tend to forget that 9 per cent of total US orange juice imports come from Mexico, and there was also a freeze in Mexico."

She said there were no estimates of the extent of damage to the Mexican crop.

Dominicans aim for a fruitful future

Canute James on a drive to replace traditional export crops

WHILE ITS traditional agriculture is stagnating, the Dominican Republic's effort to produce and export new products is bearing fruit. The recent start to exporting pineapples produced in the Cevicos region of the Dominican Republic marks a turning point in the country's attempts to revolutionise its agricultural sector, moving it away from dependence on falling traditional crops.

The sugar, coffee, cocoa and tobacco sectors have performed miserably in the past decade, because of a combination of domestic and market developments. This has adversely affected the economy of the country of 6m people and has forced successive administrations to look to the new products.

Thousands of acres which were previously under sugar cane have been given over to the new crops. Mr Osmar Benitez, director of the Joint Agribusiness Coinvestment Council, says the investments in non-traditional agriculture are estimated to total about US$300m.

"The non-traditional agricultural sector brought in foreign earnings of $429m in 1988, and is expected to earn $600m by 1992," he said. "Sugar has been in a tailspin. Coffee has been affected by price volatility and export taxes and similar problems have affected cocoa and tobacco. The need to increase earnings led to diversification of agriculture."

The problems which forced the changes are most evident in the failing fortunes of the sugar industry in the Dominican Republic, the region's second largest producer after Cuba. Sugar production in 1988 was 1.2m tonnes, accounting for 35 per cent of the country's export earnings. Last year's output of 800,000 tonnes realised 19 per cent of foreign earnings.

Low world prices and reduced access to the US market as Washington imposed lower import quotas contributed to the decline in earnings. The country's US quota fell from 302,016 tonnes in 1986 to 123,300 tonnes last year, but was later raised to 176,700 tonnes.

"The country is looking at markets for less known and exotic fruits"

The State Sugar Council incurred heavy losses, and with the depressed condition of the market the Government decided to divest hundreds of thousands of acres to be used for other products.

Tobacco production has fallen by a third since 1980, while coffee and cocoa have been stagnant.

The export of pineapples from the Cevicos region represents one of the more ambitious efforts at agricultural diversification in the country. The largest project is an undertaking by the Dole Fruit Company of the US, which has invested $13.5m to produce the fruit on 12,000 acres. The target is for exports of 100,000 tonnes a year.

Frutas Dominicanas, a subsidiary of United Brands, another US company, is planting 7,000 acres in pineapples in a joint venture with the State Sugar Council. Investments of $11m are being made in two melon projects which are aimed at the US market; citrus orchards covering 40,000 acres are being developed in the eastern and central parts of the country, while about $10m is being invested to produce cut flowers for export.

"There are also projects to produce raisins, strawberries, miniature vegetables, tomatoes and cactus pears," Mr Benitez said. "The country is looking at markets for less known and exotic fruits such as tamarind, soursop, passion fruit and guavas, as well as for mangoes and papayas. Shrimp and fish farming projects are also being studied."

The expansion of the non-traditional agricultural sector has been aided by Dominican legislation which grants tax exemption for imported equipment to be used in the new ventures. This has coincided with market opportunities offered by the Caribbean Basin Initiative, a trade programme extended by Washington to 22 designated countries, allowing them to ship a range of products, duty free, to the US.

Mr Benitez pointed to advantages for Dominican products entering the US market, saying Brazilian citrus concentrate attracted a 34 per cent duty at US ports, while there was no tax on the Dominican product because of the Caribbean Basin Initiative.

"In 1988 the Central American and Caribbean region exported agricultural products valued at $2bn to the US," he reported. "But US imports of these products were valued at were $22bn, so there is still great potential for us to produce and export more."

The Dominican Government is also looking for similar preferential market opportunities in Europe. The country has been made a beneficiary of the Lomé Convention, which gives almost 70 countries in the African, Caribbean and Pacific region preferential access to the EC market.

"It is in the marketing of these non-traditional products that we can benefit if we are allowed to access the EC market under the Lomé Convention," Mr Benitez said. "It is in these that we can be competitive in Europe. Because of our climate we can produce all year round. We cannot compete in Europe in traditional agricultural products."

The statement is an implicit rejection of the concerns repeatedly expressed by the Dominican Republic's neighbours, which are signatories to the Lomé Convention, that the new member would attempt to market its bananas in the EC, compounding an already uncertain future for Caribbean producers when the single European market is created in 1992.

Dominican Government officials have insisted that their banana sector is not producing for export, and that they have no interest in the EC banana market.

But marketing the new agricultural products in Europe could present some problems for the Dominican Republic. Mr Benitez agreed that transportation infrastructure and costs could dampen his country's hopes of making a significant impact on the European market.

"We are hoping that one other benefit we will get from the Lomé Convention is increased investment from Europe in the agricultural sector. There is currently only a small European involvement in the sector."

Australian sheep exports to Saudi Arabia back on course

By Chris Sherwell in Sydney

AUSTRALIA'S lucrative live sheep trade with Saudi Arabia, suspended since August, resumes today with a shipment of 60,000 animals from Adelaide.

The resumption follows the reaching of an understanding between the Saudi Arabian Government and the Australian sheep industry on a range of measures designed to ensure that Australian sheep delivered to Saudi Arabia are in ideal condition.

Before the trade suspension, Australia earned some A$230m a year in foreign exchange from its live sheep trade with the Middle East. More than half – involving some 3.5m head – came from Saudi Arabia.

The controversy arose in July and August last year, when 400,000 sheep in six different shipments were refused entry to Saudi ports amid accusations that they were suffering blue tongue and sheep pox – diseases not known in Australia.

As the ships sought alternative disembarkation points in the Gulf region and elsewhere, an angry Australian Government decided to suspend the Saudi trade, largely on animal welfare grounds.

Intensive diplomacy over ensuing months resulted in a December announcement from the Australian Meat and Livestock Corporation, a statutory body which helps market the industry's products, detailing measures to meet Saudi requirements.

Under these, ships carrying sheep to Saudi ports will be required to carry a government-appointed veterinary official on board to monitor the health of the animals and record evidence of maladies. In addition the bulk of sheep will be less than three years of age and will include breeding sheep and ram lambs.

Today's shipment follows receipt of a letter from the Saudi deputy minister for agriculture and water acknowledging the Australian measures. Though known officially as guidelines, the new conditions really amount to controls. To ensure that exporters adhere to them, the corporation must approve all shipments.

Meanwhile it remains unclear precisely why the trade had to suffer such serious disruption. Australia has made no admissions regarding diseased sheep, although it is now apparent that some sheep were too old and others may have suffered a minor mouth virus. Internal Saudi politics also complicated matters: non-Australian shipments were also turned away.

In the end, it was the Australian industry, rather than the Federal Government, which secured the understanding which paved the way for a resumption of trade. In the end, too, it was commercial reality which prevailed, as Saudi sheep prices soared because of growing shortages and Australian prices plummeted because of surplus flocks.

Jamaica sends more bananas to Britain

By Canute James in Kingston

JAMAICA exported 42,600 tonnes of bananas to Britain last year, 14,600 tonnes more than in 1988, according to the island's Banana Export Company.

The company said last year's shipments represented 32 weeks of shipments after the industry was severely damaged by a hurricane which hit the island in September 1988, and which also depressed production that year.

It has projected this year's exports at between 70,000 and 75,000 tonnes.

WEEKLY METALS PRICES

Prices from Metal Bulletin (last week's in brackets).

ANTIMONY: European free market 99.6 per cent, $ per tonne, in warehouse, 1,650-1,700 (same).

BISMUTH: European free market, min. 99.99 per cent, $ per lb, tonne lots in warehouse, 3.90-4.30 (same).

CADMIUM: European free market, min. 99.5 per cent, $ per lb, in warehouse, 4.90-5.15 (5.00-5.20).

COBALT: European free market, 99.5 per cent, $ per lb, in warehouse, 7.60-7.85 (7.55-7.70).

MERCURY: European free market, min. 99.99 per cent, $ per 76 lb flask, in warehouse, 240-250 (same).

MOLYBDENUM: European free market, drummed molybdic oxide, $ per lb Mo, in warehouse, 2.55-2.65 (2.50-2.60).

SELENIUM: European free market, min 99.5 per cent, $ per lb, in warehouse, 5.50-6.10.

TUNGSTEN ORE: European free market, standard min. 65 per cent, $ per tonne unit (10 kg) WO, cif, 42-61 (same).

VANADIUM: European free market, min. 98 per cent, $ a lb VO, cif, 2.10-2.30 (same).

URANIUM: Nuexco exchange value, $ per lb, UO, 9.20 (same).

WORLD COMMODITIES PRICES

LONDON MARKETS

BASE METAL prices declined across the board on the LME yesterday. Nickel closed at a fresh two-year low, under continuing pressure from merchant liquidatation and commission house selling and the absence of significant consumer enquiry. Any buying support which emerges is likely to be in order to cover immediate requirements and most players are still expected to hold off until the market shows signs of bottoming before making fresh purchases, analysts said. Bearish sentiment continues to affect both the copper and tin markets. Robusta coffee closed at a fresh 14-year low, continuing the recent downtrend, which one trader said was "to a great degree technical." Dealers were doubtful whether an executive board meeting of the International Coffee Organization (ICO) in London would achieve much.

SPOT MARKETS

Crude oil (per barrel FOB)		+ or -
Dubai	$16.65-6.75z	+0.05
Brent Blend	$19.65-9.70z	+.025
W.T.I. (1 pm est)	$21 70-1.75z	-0.60
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$215-217	-1
Gas Oil	$183-184	-3½
Heavy Fuel Oil	$97-99	-3½
Naphtha	$190-192	-1
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$413.75	+1.25
Silver (per troy oz)♣	527c	+1
Platinum (per troy oz)	$498.00	-6.25
Palladium (per troy oz)	$136.50	-1.05
Aluminium (free market)	$1495	-35
Copper (US Producer)	113⅝-120c	
Lead (US Producer)	40.5c	
Nickel (free market)	335c	-10
Tin (Kuala Lumpur market)	17.85r	+0.14
Tin (New York)	308c	-3
Zinc (US Prime Western)	68¼c	
Cattle (live weight)†	109.08p	-2.10*
Sheep (dead weight)†	192.89p	-6.85*
Pigs (live weight)†	75.45p	+1.05*
London daily sugar (raw)	$346t	
London daily sugar (white)	$435.5t	-1
Tate and Lyle export price	£324	+2.8
Barley (English feed)	£117	
Maize (US No. 3 yellow)	£128.5	
Wheat (US Dark Northern)	£130	
Rubber (spot)♥	53p	
Rubber (Feb)♥	55.25p	-0.25
Rubber (Mar)♥	56.25p	-0.25
Rubber (KL RSS No 1 Feb)	225.5m	+0.5
Coconut oil (Philippines)§	$440.0x	-2.5
Palm Oil (Malaysian)§	$285.0w	-7.5
Copra (Philippines)§	$280	
Soyabeans (US)	£172	+2
Cotton "A" index	74.35c	
Wooltops (64s Super)	573p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg x-Feb/Mar. t-Jan/Feb. v-Jan/Mar. w-Feb. z-Mar. †Meat Commission average fatstock prices. * change from a week ago. ♥London physical market. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.

COCOA – London FOX £/tonne

	Close	Previous	High/Low
Mar	629	637	635 627
May	640	651	649 639
Jul	655	665	663 654
Sep	670	680	679 669
Dec	690	700	699 690
Mar	709	715	715 708
May	722	730	728 723

Turnover: 10379 (4174) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Jan 15 765.49 (779.41):10 day average for Jan 16 751.12 (747.77)

COFFEE – London FOX £/tonne

	Close	Previous	High/Low
Jan	567	579	573 565
Mar	586	598	593 585
May	604	615	609 600
Jul	623	633	628 618
Sep	642	653	647 637
Nov	662	669	666 655
Jan	682	687	685 675

Turnover: 7284 (4262) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Jan 15: Comp. daily 61.14 (62.05). 15 day average 63.48 (63.40)

SUGAR – London FOX ($ per tonne)

Raw	Close	Previous	High/Low
Mar	320.40	323.80	323.40 315.00
May	320.00	324.00	323.40 315.60
Aug	318.00	321.40	320.00 314.40
Oct	310.60	314.00	312.40 306.20
Dec	309.00	312.00	305.00
Mar	292.00	295.00	293.00 292.00
White	**Close**	**Previous**	**High/Low**
Mar	427.0	433.0	434.0 422.0
May	424.0	428.0	428.5 416.5
Aug	420.5	423.5	423.0 413.0
Oct	394.5	398.0	397.0 390.0
Dec	369.0	372.0	
Mar	365.0	-	362.0

Turnover: Raw 6172 (4617) lots of 50 tonnes. White 2601 (1637)
Paris- White (FFr per tonne): Mar 2467, May 2450, Aug 2460, Oct 2320, Dec 2160, Mar 2140.

CRUDE OIL – IPE $/barrel

	Latest	Previous	High/Low
Mar	19.57	19.59	19.70 19.15
Apr	19.00	18.99	19.18 18.69
May	18.50	-	18.50 18.34
IPE Index	19.60	20.21	

Turnover: 10328 (6374)

GAS OIL – IPE $/tonne

	Latest	Previous	High/Low
Feb	175.75	180.25	178.50 172.00
Mar	168.75	172.25	170.50 166.00
Apr	163.75	168.25	166.00 160.00
May	161.50	164.25	161.75 159.00
Jun	160.50	162.50	162.00 158.00
Jul	162.00	162.00	159.00 157.00
Aug	162.50	164.25	

Turnover 12944 (8242)lots of 100 tonnes

COTTON

Liverpool- Spot and shipment sales for the week ended 12 January amounted to 150 tonnes against 224 in the previous week. Trading was very low with only small orders made in West African growths.

JUTE

C and f Dundee BTC $580, BWC $580, BTD $550, BWD $550; c and f Antwerp BTC $560, BWC $550, BTD $530, BWD $520.

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)						Ring turnover 27,225 tonne
Cash	1508-10	1519-21	1494	1494-5		
3 months	1528-9	1538-40	1540/1513	1513-4	1530-2	34,277 lots
Copper, Grade A (£ per tonne)						Ring turnover 41,150 tonne
Cash	1427-8	1433-5	1440/1421	1425-6		
3 months	1439-40	1447-7.5	1453/1434	1440-1	1447-8	65,247 lots
Lead (£ per tonne)						Ring turnover 11,400 tonne
Cash	416-7	419-21	417/415	416-6.5		
3 months	413-4	415-6	422/408	414.5-5	419-20	9,748 lots
Nickel ($ per tonne)						Ring turnover 1,788 tonne
Cash	7000-100	7400-50	7200	7190-210		
3 months	6875-85	7275-90	7200/6875	7005-8	6865-900	6,666 lots
Tin ($ per tonne)						Ring turnover 545 tonne
Cash	6710-30	6780-800	6730	6725-35		
3 months	6830-40	6880-90	6840/6780	6825-45	6780-80	5,822 lots
Zinc, Special High Grade ($ per tonne)						Ring turnover 10,200 tonne
Cash	1256-8	1270-2	1262/1261	1260-1		
3 months	1268-9	1275-7	1275/1268	1275-7	1275-7	18,023 lots
Zinc ($ per tonne)						Ring turnover 1,875 tonne
Cash	1265-75	1265-75		1250-60		
March 30	1235-40	1245-55		1225-35		1,468 lots

LME Closing £/$ rate: SPOT: 1.6558 3 months: 1.6285 6 months: 1.6022 9 months: 1.5807

POTATOES – BFE £/tonne

	Close	Previous	High/Low
Feb	145.0	145.0	
Apr	198.2	200.0	199.5 197.5
May	223.9	-	224.0

Turnover 105 (74) lots of 40 tonnes.

SOYABEAN MEAL – BFE £/tonne

	Close	Previous	High/Low
Feb	138.00	136.00	
Apr	138.00	138.00	137.50 137.00

Turnover 130 (118) lots of 20 tonnes.

FREIGHT FUTURES – BFE $10/index point

	Close	Previous	High/Low
Jan	1679	1677	1679 1673
Feb	1684	1680	1684 1677
Apr	1696	1689	1696 1690
Jul	1432	1433	1434 1430
BFI	1663	1650	

Turnover 341 (159)

GRAINS – BFE £/tonne

Wheat	Close	Previous	High/Low
Jan	113.30	112.95	112.90 112.70
Mar	116.25	115.90	116.25 115.85
May	120.45	120.00	120.30 119.75
Jun	121.80	121.40	
Barley	**Close**	**Previous**	**High/Low**
Jan	110.55	110.50	110.55 110.50
Mar	112.20	112.00	112.20 111.75
May	114.30	114.10	114.00 113.90
Sep	103.50	-	103.50

Turnover: Wheat 272 (308), Barley 125 (122).
Turnover lots of 100 tonnes.

PIGS – BFE (Cash Settlement) p/kg

	Close	Previous	High/Low
Feb	103.5	104.5	
Apr	106.5	106.5	106.5
Jun	107.5	107.0	107.0
Oct	108.5	-	108.5

Turnover 18 (12) lots of 3,250 kg

LONDON BULLION MARKET

Gold (fine oz)	$ price	£ equivalent
Close	413½-414	249¼-249¾
Opening	413-413½	249½-250
Morning fix	415.25	251.24
Afternoon fix	412.75	249.366
Day's high	415½-416	
Day's low	411½-412	
Coins	**$ price**	**£ equivalent**
Mapleleaf	422-427	254-257
Britannia	422-427	254-257
US Eagle	422-427	254-257
Angel	425-430	256½-259½
Krugerrand	412-415	248-250
New Sov.	96½-98½	58-59
Old Sov.	96½-98½	58-59
Noble Plat	503.95-511.95	304.80-309.60
Silver fix	**p/fine oz**	**US cts equiv**
Spot	318.25	522.15
3 months	328.05	532.70
6 months	340.05	543.30
12 months	363.20	565.05

TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Mar	May	Mar	May
1450	83	98	9	19
1550	24	40	48	61
1650	4	15	126	130
Copper (Grade A)	**Calls**		**Puts**	
2250	153	136	23	60
2350	71	85	60	106
2450	32	49	119	168
Coffee	**Mar**	**May**	**Mar**	**May**
550	41	64	5	10
600	12	32	26	28
650	2	14	66	60
Cocoa	**Mar**	**May**	**Mar**	**May**
600	39	59	11	20
650	14	32	36	43
700	3	15	75	76
Brent Crude	**Mar**	**Apr**	**Mar**	**Apr**
1950	52	51	43	62
2000	34	33	70	
2050	13	-		

US MARKETS

THE METALS featured two-sided action in the gold market, reports Drexel Burnham Lambert. Prices fell late in the day due to fund selling. Silver prices were down for most of the day, continuing its bearish tone. The platinum and copper markets both had slow days. In the softs, sugar had the most active day. The March contract had a 46 point trading range before closing down 17. Commission houses made up most of the volume. Cocoa was also down due to some trade selling. Coffee closed nearly unchanged after mixed trade. Volume was again heavy. The grains were all weak due mostly to commission house liquidation. Good weather in the southern hemisphere was noted. The soy complex posted the days biggest declines led by soybeans. Livestock futures closed mixed. Light commission house activity was seen on both sides of the market. Orange juice advanced from the cold weather, while cotton trading remained slow. Energy prices rebounded in most markets on scattered short covering and some new longs entering the market.

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
Jan	410.8	413.7	412.0	412.0
Feb	412.2	415.1	415.9	409.0
Mar	414.7	417.7	0	0
Apr	417.6	420.6	421.5	416.5
Jun	422.6	425.6	426.5	420.0
Aug	427.4	430.3	430.6	425.5
Oct	432.4	435.2	434.2	434.0
Dec	437.4	440.1	440.5	438.5
Feb	442.5	445.2	445.0	445.0

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
Jan	495.2	499.3	499.0	496.5
Apr	502.0	506.1	505.0	498.5
Jul	508.7	512.8	509.7	507.5
Oct	516.0	520.1	517.0	516.5
Jan	523.5	527.6	0	0

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low	
Jan	523.0	524.2	0	0
Feb	524.4	525.7	0	0
Mar	528.5	529.8	534.0	526.5
May	536.6	537.9	540.0	533.5
Jul	544.5	545.9	550.0	542.0
Sep	552.8	554.3	557.5	551.0
Dec	564.3	565.8	568.0	562.0
Jan	567.8	569.3	0	0
Mar	576.1	577.7	575.5	575.0
May	583.9	585.5	0	0

INDICES

REUTERS (Base: September 18 1931 = 100)			
Jan 16	Jan 15	mnth ago	yr ago
1791.4	1795.2	1817.2	1991.0

DOW JONES (Base: Dec. 31 1974 = 100)	Jan 15	Jan 12	mnth ago	yr ago
Spot	127.72	127.92	127.89	139.77
Futures	129.98	130.45	129.94	149.96

HIGH GRADE COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jan	105.00	104.80	105.10	103.20
Feb	104.70	104.40	104.90	103.00
Mar	104.00	104.00	105.50	102.30
Apr	103.80	103.30	104.10	102.50
May	103.20	102.80	104.00	101.20
Jun	102.70	102.20	102.70	102.70
Jul	102.30	101.75	102.70	100.60
Aug	101.90	101.25	0	0
Sep	101.40	100.75	100.80	0
Oct	101.00	100.60	0	0

CRUDE OIL (Light) 42,000 US galls $/barrel

	Latest	Previous	High/Low	
Feb	22.62	22.38	22.94	21.94
Mar	21.61	21.49	21.85	21.05
Apr	21.02	20.95	21.24	20.50
May	20.60	20.53	20.72	20.20
Jun	20.14	20.14	20.34	19.90
Aug	19.49	19.52	19.60	19.43
Sep	19.25	19.29	19.40	19.00
Oct	19.10	19.11	19.20	18.87
Nov	19.00	18.97	19.15	18.79

HEATING OIL 42,000 US galls, cents/US galls

	Latest	Previous	High/Low	
Feb	6495	6460	6540	6270
Mar	5940	6065	6035	5780
Apr	5660	5681	5705	5460
May	5440	5426	5510	5300
Jun	5320	5286	5362	5175
Jul	5250	5246	5300	5175
Aug	5280	5301	5300	5300
Nov	5550	5501	5530	5530

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low	
Mar	958	977	969	951
May	964	972	965	960
Jul	968	980	975	963
Sep	982	996	990	980
Dec	1002	1020	1010	1000
Mar	1022	1040	1030	1018
May	1035	1050	0	0

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
Mar	77.55	77.56	78.25	76.60
May	79.35	79.74	80.10	78.50
Jul	81.19	81.76	82.00	80.50
Sep	83.10	83.43	84.10	82.50
Dec	85.60	86.35	86.75	85.15
Mar	88.00	89.00	88.50	88.00
May	89.75	91.00	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
Mar	14.49	14.65	14.64	14.18
May	14.45	14.62	14.60	14.21
Jul	14.32	14.49	14.47	14.12
Oct	13.92	14.13	14.06	13.69
Mar	13.23	13.40	13.30	13.10
May	13.10	13.30	0	0

COTTON 50,000; cents/lbs

	Close	Previous	High/Low	
Mar	65.90	66.22	66.30	65.40
May	66.95	67.21	67.16	66.52
Jul	67.15	67.30	67.25	66.70
Oct	65.05	65.32	65.05	65.00
Dec	63.90	64.15	64.00	63.71
May	64.40	65.50	64.80	64.40

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jan	195.25	191.25	196.00	191.25
Mar	198.70	195.15	200.15	193.50
May	198.50	194.15	199.15	193.50
Jul	197.25	193.25	198.25	192.50
Sep	195.00	192.15	197.00	190.75
Nov	192.25	190.25	194.00	192.00
Jan	189.75	188.75	189.75	188.25
Mar	189.15	185.50	185.00	185.00
May	189.00	185.00	189.00	185.00

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Jan	558/0	564/0	562/4	557/4
Mar	568/0	575/6	575/2	567/2
May	581/4	589/2	589/0	581/0
Jul	593/0	602/0	601/2	592/4
Aug	598/0	606/0	604/4	598/0
Sep	594/0	605/0	604/4	594/0
Nov	601/4	611/6	611/4	601/0
Jan	611/0	622/0	620/4	611/0

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
Jan	18.96	19.15	19.14	18.94
Mar	19.16	19.42	19.40	19.15
May	19.52	19.79	19.75	19.50
Jul	19.77	20.04	20.02	19.74
Aug	19.80	20.08	20.05	19.78
Sep	19.82	20.08	20.05	19.82
Oct	19.86	20.12	20.05	19.87
Dec	19.97	20.25	20.28	19.97

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
Jan	171.9	174.7	174.5	171.8
Mar	173.9	176.2	176.0	173.8
May	176.3	178.2	178.2	176.2
Jul	179.1	180.7	180.7	178.9
Aug	180.1	182.1	182.0	180.1
Sep	181.1	183.1	183.2	181.0
Oct	182.3	184.4	184.3	182.3
Dec	185.1	187.2	187.0	184.5

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
Mar	242/4	243/6	243/2	242/0
May	246/0	250/2	249/6	246/2
Jul	253/6	255/0	254/4	253/0
Sep	252/0	252/2	252/6	250/4
Dec	249/2	249/4	249/6	248/2
Mar	255/4	256/0	255/6	254/2
May	259/2	259/4	259/4	259/2

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low	
Mar	398/2	398/4	401/0	397/6
May	376/6	378/6	380/0	376/2
Jul	353/0	355/2	358/0	352/6
Sep	358/0	360/4	361/4	358/0
Dec	369/2	371/2	372/0	369/0
Mar	375/4	377/0	376/0	375/4

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Feb	77.80	77.27	77.80	77.00
Apr	76.27	76.47	76.60	75.80
Jun	71.70	71.77	72.02	71.45
Aug	70.92	71.05	71.07	73.60
Oct	71.45	71.50	71.55	71.05
Dec	72.20	72.30	72.30	72.00

LIVE HOGS 30,000 lb; cents/lbs

	Close	Previous	High/Low	
Feb	49.70	50.30	50.35	49.52
Apr	47.37	47.92	48.20	47.27
Jun	52.42	52.65	52.97	52.30
Jul	52.60	52.77	53.02	52.40
Aug	50.97	50.92	51.35	50.80
Oct	45.35	45.35	45.55	45.15
Dec	46.85	47.00	47.20	46.85
Feb	46.80	0	47.20	46.80

PORK BELLIES 40,000 lbs; cents/lb

	Close	Previous	High/Low	
Feb	56.62	56.30	56.90	54.90
Mar	56.17	55.85	57.35	55.50
May	57.56	57.15	58.60	58.80
Jul	57.57	57.32	58.65	56.95
Aug	56.60	55.40	56.95	55.20
Feb	57.70	56.70	57.80	56.80

LONDON STOCK EXCHANGE

Shares steady at Footsie 2,350 area

IT WAS a painful trading session yesterday in a London stock market beset by ominous developments inside the UK securities industry as well in other securities markets. Share prices were badly shaken by the heavy setback overnight in Tokyo equities, and morale in the City of London was additionally unsettled by confirmation of substantial redundancies at leading securities houses.

"Every one was glad to see the end of today," admitted one trader, reviewing a session which saw the Footsie down by 36 points at one time and with the trading community hit by redundencies at two major firms which could amount to more than 200 City employees. County NatWest axed nearly 80 staff early in the day, and the market was then left on tenterhooks to await confirmation of the effective withdrawal from the London equity market of Citicorp Scrimgeour Vickers, with potential redundencies of as many as 140 employees.

In view of this generally gloomy backcloth, the stock market performed fairly well, rallying from its early loss to regain a support level, with the FT-SE Index finally 17.1 down at 2,349.1. Turnover was a moderately healthy 426.1m shares against Monday's 359.6m. Traders were surprised to see equities open firmer, in view of the bearish mood in global markets as both Japan and the New York bond market returned to business; London market indices were helped at first by a scattering of speculative and other special situations.

The market soon turned off, however, and share prices slid away as a few sellers found the market swiftly emptied of buyers. However, London was already above the worst before Wall Street opened, and it rallied significantly as a fall in the Dow Average was largely recovered in early trading – a tonic for those in London who had forecast a 30 point fall.

Trading volumes in leading stocks varied substantially, bearing out traders' comments that the investment institutions were often buyers at lower levels. Bass, Fisons and Prudential were all singled out for good support.

The recovery in the Footsie to the 2,350 area provided encouragement since several leading equity strategists had suggested that the market could dip to this range without losing its positive bias. At Panmure Gordon, the UK broking firm, Mr Nigel Little commented that churning, or short term activity, in the market is now much reduced as investors concentrate on medium term investment opportunities.

By the close, London was following New York's lead very closely, and UK traders expect this morning's opening in the UK market to be dominated by New York's performance overnight as it braces itself for the US November trade figures due today.

Account Dealing Dates

First Dealings:	Dec 27	Jan 15	Jan 29
Option Declarations:	Jan 11	Jan 25	Feb 8
Last Dealings:	Jan 12	Jan 26	Feb 9
Account Day:	Jan 22	Feb 5	Feb 19

*New time dealings may take place from [illegible] two business days earlier.

Cost warning hits BA

British Airways (BA) weakened in busy trading as the company told the City that current profit forecasts were probably too high. Analysts said BA had made a series of calls to brokers stressing that rising oil prices would hit fuel costs.

Among those to downgrade, by between 3 per cent and 6 per cent, were Mr Peter Bergius of Kleinwort Benson and Mr Steve Clapham of Hoare Govett. County Natwest WoodMac was also said to have lowered its figures.

Mr Bergius said that fuel was 35 per cent more expensive than a year ago. Although traffic growth had been "superb," he said, sustaining that progress would be difficult, not least because some routes were already running at almost 100 per cent capacity. He cut his pre-tax forecast, excluding asset sales, from £325m to £315m. Mr Clapham went further, reducing his forecast (including about £20m in asset sales) from £345m to £325m. He added however that as the price fell it began to look attractive again.

BA ended 5 off at 210p, 3 above the lowest level. Volume was an strong 6.7m shares traded.

Bid referral

The referral to the Monopolies and Mergers Commission of the bid by Kingfisher for Dixons initially sent the former higher and the latter lower. But dealers quickly came to the conclusion that the bid was likely to go ahead anyway and the shares reversed their earlier trends in active two-way trade.

Marketmakers were surprised by the three-month period within which the MMC will report - six months is more typical, they said. The initial markdown of Dixons to 123p offered, succeeded immediately in flushing out speculative buyers. Most of the 6m shares traded changed hands at around the 128p closing price, a net fall of 8.

The rise in Kingfisher, to 305p at their best, quickly prompted profit taking. The gains were turned into a rapid fall and the shares closed at 293p, down 3 on the day as 5.1m changed hands.

LASMO strong

The first news of a successful oil drilling operation in Syria in tandem with Total triggered a strong run by LASMO shares which rose sharply to touch 588p during what was described as frantic early trading, before retreating to end a volatile session only fractionally ahead at 575p. Turnover in LASMO came out at 2.4m shares, well above normal levels of business in the stock.

News of the oil discovery, in the Al Bishri well in Syria, filtered into the market early with dealers and analysts saying the discovery could be in the order of between 50m and 100m barrels of oil. LASMO has a 20 per cent stake in the discovery, which was said to have tested oil in the first two of four prospective zones.

Confirmation from the participants in the well is expected by the end of the week after further tests have been carried out, although the discovery was said to have been described as commercial by the Syrian authorities.

There were various estimates of the potential impact of the find on LASMO's net asset value and share price. Estimates of the value on the shares ranged from around 7p a share up to 22p a share. "The success goes some way to vindicating LASMO's international drilling programme," said one analyst.

British Land busy

British Land opened 37p higher at 425p after a London television programme had drawn attention to the possibility of a bid for the company in the wake of recent developments. In the event, no bid transpired, but the stock stayed better all day, closing at 405p. Volume was high, with 2.4 million shares changing hands.

Speculation that British Land was ripe for a bid was widespread when restructuring proposals for the company were withdrawn last month. One marketmaker said at that time: "The company has effectively put itself up for sale."

British Land's market capitalisation is currently well below its net asset value of around 570p a share. The shares are currently trading in the market at a discount of around 29 per cent to asset value.

Analysts were quick to play down the bid rumours. Mr Alex Moss of BZW said: "What came out of that programme was nothing particularly new. What it has done is focus people's attention." One marketmaker said: "It's ridiculous. People realised it was all rather spurious and a bit of profit-taking ensued."

Hanson fell more sharply than the rest of the market in busy trading. Dealers said that holders of the convertibles were intending to make the conversion but selling the stock now in a hedging operation. The shares slipped 5 to 228p on turnover of 11m.

News that the US Food and Drug Administration had recommended a halving of doses of Retrovir, Wellcome's Aids drug, hurt the shares despite analysts' assurances that the effect on profits would be small. Wellcome fell 34 at one point before closing a net 22 off at 738p.

Three of the big banking stocks outperformed the sector and the rest of the market as speculators revived the takeover stories that did the rounds last year.

Midland Bank was the best performer, the shares moving up 6 to 370p on turnover of 2m; "It's the Hongkong & Shanghai Banking takeover story and the absence of any significant selling," said one trader. Standard Chartered, also regarded as a potential takeover target, rose 4 to 549p as 1m shares changed hands. Royal Bank of Scotland continued to attract plenty of activity with the shares settling 2 firmer at 203p on a turnover of 2.5m.

Merchant banks gave ground after a sell recommendation on the sector issued by Mr Hugh Pye of Flemings Research. The analyst said the sector, which has outperformed the market by 35 per cent over the past six months, is looking "overbought," citing the nervous state of the stock market, where further falls in share prices are forecast. S.G. Warburg lost 5 to 496p.

Prudential were outstanding in an otherwise subdued lifes sector, closing 4 higher at 221p on turnover of 7.1m, still boosted by the good new business figures released on Monday. Sun Alliance, generally perceived as the best quality stock in the composites, moved against the tide in the sector, ending the session a net 7 firmer at 326p.

Murmurs of possible stakebuilding lifted C.E. Heath 2 to 535p. Sturge Holdings added 4 at 284p in response to the sharp rise in profits.

Property sector volumes improved, fuelled by the bid speculation surrounding British Land and continued demand for property stocks from a Benelux based buyer. MEPC saw more than trebled turnover to 909,000 shares, while Land Securities doubled its volume to 1.8m shares.

Property leaders were buoyed by the takeover talk and opened strongly in heavy trade, only to stabilise below their best. MEPC rose 4 to 527p but closed at 520p, Land Securities, 5 up at one point, returned to its opening price of 522p.

Redland dropped 13 to 585p, after 579p, after revealing it intended spending up to £46m to expand its French aggregates business via two acquisitions. Tarmac, after talk of imminent profits downgradings, fell 8 to 249p. Stanley Miller lost 25 to 172p after the profits warning.

Racal Telecom were among the worst performers in electronics/telecoms issues, the shares dipping 12 more to 358p – a fall of 35 over the past three trading sessions. Turnover, at 347,000, remained thin.

Brewing leaders fell sharply in early trading on the back of weaknesses in world bourses and negative market stories. Guinness, whose ADRs are quoted in New York, fell 14 at one point before recovering to close a net 10 off at 644p.

Speculation that Grand Metropolitan was about to buy half of the French drinks group Rémy Martin did the rounds early in the day, but was not confirmed in London until after the market closed. The shares had fallen to 609p but recovered to close 11 off on the day at 615p.

This was not the fate of renewed stories that Elders IXL had sold its 22 per cent stake in Scottish and Newcastle. Although the tales were detailed enough to include a price, (325p) and a destination (institutions), by the end of the day dealers had concluded they were not true. By then Scottish shares had recovered from their low of 335p to 342p, a fall of 6 on the day.

A recommendation by Kitcat & Aitken that investors should switch out of Geest and into Polly Peck boosted the latter. Kitcat said: "We believe that there is more potential for an increase in the rating of the shares of Polly Peck than those of Geest." Geest closed 3 off at 264p, while Polly Peck ended 3 higher at 403p.

Asda continued to suffer from press speculation that it has encountered difficulties in the computer system it uses to controls payments to its suppliers. Some dealers noted that Asda's weakness had prompted switching into Argyll, with the former continuing to attract steady buying. Asda finished down a penny at 114p, while Argyll closed 4 up at 214p.

Dealers interpreted an apparent delay in publication of results from Hunterprint as preparation for an announcement that the company was in bid talks. The shares, more than 40 up at one point, were nevertheless thinly traded and finished 25 up at 190p.

Bowater recovered against the trend, helped by buy notes from Mr Geoff Allum at County NatWest WoodMac and Mr Mike Murphy at S.G. Warburg. Both said that the company's gearing would be cut below 100 per cent within months, partly through disposals raising between £50m and £100m. Mr Murphy said that last year's cyclical difficulties in the packaging industry were now behind the company. Mr Allum added that with the bad news in the price, the strength of the management helped make the share a buy.

Oil and gas stocks continued to hold up well in the face of another retreat by crude prices, down some 35 cents a barrel.

Burmah continued to shrug aside the weakness elsewhere in the market, with the shares up 5 more to 668p on turnover of 781,000 on persistent talk that SHV, the privately-owned Dutch group has been back in the market picking up stock to add to its 9.14 per cent stake.

Calor, 44 per cent owned by SHV, and said by many to be the latter's preferred merger partner with Burmah, ran back 5 to 368p, apparently unsettled by the continuing mild weather in the UK.

Simon Engineering lost 12 to 383p on worries over civil strife in the Soviet Union, where the company is a third of the way through a £250m construction project in Azerbaijan.

Smith Industries gave up 10 to 258p following a recent profits downgrading by County Natwest for the current year from £128m to £123m "to reflect the knock-on effect of the 10 week strike at Boeing which ended in November." The company makes flight instruments for the Boeing 737.

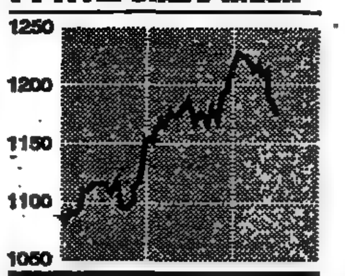
Fears for the future of the European Fighter Aircraft (EFA) following suggestions that some West German coalition members may favour cancellation, continued to cause concern particularly around British Aerospace, one of the prime contractors on the project. The shares weakened 11 to 540p before bargain hunters lifted the share price to close 5 down at 546p on the day.

Defence worries that have affected other engineering stocks coupled with fears of a strike at Fords weakened both GKN and Lucas. GKN lost 12 to 438p while Lucas having fallen 11 to 639p recovered to close 6 down at 644p.

ADT remained firm and shares edged a penny forward to 199p, with Laidlaw, the Canadian group with a 29 per cent stake, once again said to have been the big shopper. Some 2.2m shares were traded, including a block of 1.5m shares traded at 197p.

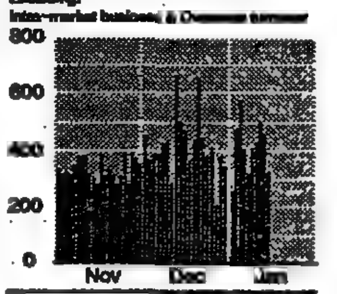
■ Other Market statistics, including the FT-Actuaries share index, London Traded Options, and recent issues (including the water issue stocks) Page 30

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million)
Excluding: Intra-market business & Overseas turnover



NEW HIGHS AND LOWS FOR 1989/90

NEW HIGHS (91).
CANADIANS (1) BUILDINGS (1) ELECTRICALS (2) ENGINEERING (7) INDUSTRIALS (1) Novo Inds. "B", INSURANCE (2) PAPERS (3) PROPERTY (1) SOUTH AFRICANS (2) TRUSTS (3) MINES (31).
NEW LOWS (121).
BRITISH FUNDS (57) INT.BANK & O'SEAS GOVT. STLG. ISSUES (3) AMERICANS (4) CANADIANS (1) BANKS (6) BREWERS (2) BUILDINGS (3) CHEMICALS (1) STORES (7) ELECTRICALS (3) FOODS (1) HOTELS (1) INDUSTRIALS (9) Beaverco, Cathay Pac., Mid Kent Wrts., Rock, Sale Tilney, Savage, Walpac, Young (H.), LEISURE (3) MOTORS (1) NEWSPAPERS (1) PAPERS (4) SHOES (1) TEXTILES (1) TRANSPORT (2) TRUSTS (6) OILS (3) THIRD MARKET (1).

FINANCIAL TIMES STOCK INDICES

	Jan 16	Jan 15	Jan 12	Jan 11	Jan 10	Year Ago	1989/90 High	1989/90 Low	Since Compilation High	Since Compilation Low
Government Secs	82.36	82.38	83.02	82.94	82.98	87.54	89.29 (8/2/89)	82.36 (16/1/90)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	92.46	92.39	92.60	92.55	92.62	96.53	93.59 (15/3/89)	92.02 (8/12/89)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary Share	1875.7	1898.8	1909.1	1943.5	1936.4	1521.3	2008.6 (5/9/89)	1447.8 (3/1/89)	2008.6 (5/9/89)	49.4 (26/6/40)
Gold Mines	353.6	349.4	346.1	337.8	322.4	184.8	355.8 (16/1/90)	154.7 (17/2/89)	734.7 (15/2/83)	43.5 (26/10/71)
FT-SE 100 Share	2349.1	2386.2	2380.1	2417.9	2412.6	1887.7	2463.7 (3/1/90)	1782.8 (3/1/89)	2463.7 (3/1/90)	986.9 (23/7/84)
Ord. Div. Yield	4.55	4.50	4.47	4.40	4.40	4.82				
Earning Yld %(full)	11.10	10.98	10.91	10.72	10.73	12.12				
P/E Ratio(Net)(☆)	10.90	11.02	11.10	11.29	11.28	9.98				
SEAQ Bargains(5pm)	28,279	27,013	34,468	32,618	28,582	33,101				
Equity Turnover(£m)†	-	749.48	1033.66	1184.83	938.72	1262.72				
Equity Bargains†	-	27,791	25,908	32,860	30,914	33,101				
Shares Traded (ml)†	-	314.6	457.7	502.1	423.9	504.6				

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold mines 12/9/55. Basis 1000 FT-SE 100 31/12/83. ☆ Nil 10.85

Ordinary Share index, Hourly changes — Day's High 1894.9 — Day's Low 1858.4

Open	10 a.m.	11 a.m.	12 p.m.	1 p.m.	2 p.m.	3 p.m.	4 p.m.
1894.7	1887.3	1872.9	1863.3	1862.8	1860.3	1867.3	1869.8

FT-SE, Hourly changes — Day's High 2369.7 — Day's Low 2329.5

Open	10 a.m.	11 a.m.	12 p.m.	1 p.m.	2 p.m.	3 p.m.	4 p.m.
2369.4	2360.8	2344.5	2334.5	2333.5	2330.0	2339.3	2341.9

GILT EDGED ACTIVITY

Indices*	Jan 15	Jan 12
Gilt Edged Bargains	99.1	78.6
5—Day average	83.2	80.4

*SE Activity 1974. †Excluding intra-market business & Overseas turnover. Calculation of the FT Indices of daily Equity Bargains and Equity Value and of the five-day averages of Equity Bargains and Equity Value, was discontinued on July 31. Closing values for July 28 available on request.
London report and latest Share index: Tel. 0898 123001.

TRADING VOLUME IN MAJOR STOCKS

	Volume 000's	Closing Price	Day's change
AOT	2,200	190	+1
ASDA Group	7,000	114	−1
Abbey National	1,800	180	−1½
Allied-Lyons	1,300	307	−4
Amstrad	3,400	51	
Argyll Group	3,500	214	+4
Ass. Brit. Foods	247	409	−1
BAA	300	375	−2
BAT Inds.	4,100	815	−6
BET	2,100	253	−5
BICC	482	488	−4
BOC	631	536	−7
BPB Inds.	529	238	−1
BTR	2,150	444	−7
Barclays	1,700	552	−2
Bass	1,100	1061	−7
Beazer	2,000	172	−2
Beresford Int.	285	187	−1
Blue Arrow	817	93	+2
Blue Circle	1,065	242	−5
Boots	1,800	272	−1
Brit. & Comm.	1,800	82	
Brit. Aerospace	1,830	546	−5
British Airways	6,700	210	−5
British Gas	6,800	234½	−1½
British Land	2,430	405	+17
BP	8,000	329	
British Steel	8,500	134½	−2½
British Telecom	5,700	295	−1
Bunzl	123	109	−2
Burmah Oil	781	668	+5
Burton	1,200	209	−1
Cable & Wire.	1,600	538	−1
Cadburys	1,800	346	−5
Calor Group	375	368	−5
Carlton Comms	808	789	−12
Coats Viyella	1,800	146	−½
Comm. Union	1,700	486	
Cookson	1,433	277	−6
Courtaulds	1,000	381	−8
Dalgety	500	402	+2
Dixons	6,000	128	−8
Eng. China Clays	889	435	−17
Enterprise Oil	1,800	648	−1
FKI	912	81	−4
Ferranti	2,800	34	−½
Fisons	1,100	339	+7
Gen. Accident	482	1139	−4
General Elect.	5,600	234	
Glaxo	2,550	762	−8
Globe Inv.	701	183½	−3
Glynwed Int.	299	247	−4
Granada	1,000	342	−5
Grand Met.	4,350	615	−11
GUS A	284	1049	−5
GRE	1,800	240	−2
GKN	912	438	−12
Guinness	2,000	644	−10
Hammerson 'A'	288	818	−6
Hanson	11,000	228	−5
Hanson Warrants	918	58½	−1½
Harrisons Cros.	681	160	−1
Hawker Sidd.	479	681	−13
Hillsdown	1,200	275	−2
IMI	1,300	227	+2
ICI	1,000	1133	−4
Inchcape	947	284	−6
Jaguar	1	849	
Kingfisher	5,080	294	−2
Ladbroke	2,700	325	−4
Land Securities	1,800	522	
Laporte	225	908	−2
Legal & General	814	409	−2
Lloyds Abbey	3,100	320	−2
Lloyds Bank	1,800	295	
LASMO	2,400	575	+1
Lonrho	2,900	321	+5
Lucas	508	644	−6
MB Group	2,000	218	−2
MEPC	909	520	−3
Marks & Spencer	947	197	
Maxwell Comm.	929	217	−3
Mecca Leisure	390	181	
Midland Bank	2,000	370	+6
NatWest Bank	1,500	346	−1
Next	1,300	98	
Northern Foods	303	314	
Pearl	2	686	
Pearson	434	728	−7
P & O	2,000	642	−6
Pilkington	1,600	226	−3½
Polly Peck Intl.	4,300	403	+3
Prudential	7,100	221	+4
RHM	934	430	−3
RMC	545	704	−15
RTZ	1,800	568	−14
Racal	3,100	228	−1
Racal Telecom	347	358	−12
Rank Org	885	844	−3
Reckitt & Colman	240	1230	−10
Redland	559	585	−13
Reed Intl.	2,200	443	−7
Reuters	1,285	1013	−10
Rolls Royce	5,380	183	−4½
Rothmans	140	660	−14
Ryl Bk Scotland	2,500	203	+2
Royal Insurance	1,000	538	−2
STC	1,900	288	−2
Saatchi	141	264	−5
Sainsbury	813	258	−1
Scottish & New	2,485	342	−6
Sears	6,000	106	+1
Sedgwick	531	289	−1
Shell Transport	4,200	457	−3
Siebe	259	485	+1
Slough Ests	1,100	326	+2
Smith (W.H.) A	337	332	−3
Smith & Nephew	2,400	131½	+½
SmKl Beecham	1,800	575	−11
SmKl Beecham Units	10	2535	−15
Smiths Inds	643	259	−10
Standard Chartd.	1,000	549	+4
Storehouse	3,300	116	−3
Sun Alliance	1,600	326	+7
Sun Life	24	1305	+7
T&N	1,000	210	−4
TI Group	571	424	−8
TSB	6,600	130	
Tarmac	1,513	249	−8
Tate & Lyle	1,500	298	−4
Taylor Woodrow	801	301	−6
Tesco	3,500	188½	−½
Thames Water	2,200	156½	−½
THORN EMI	1,100	787	−2
Trafalgar House	1,900	363	−2
Trusthouse Forte	1,600	292	−7
Ultramar	1,300	384	−1
Unigate	1,000	335	−2
Unilever	1,400	685	−7
United Biscuits	1,200	387	−8
Utd. Newspapers	382	438	−13
Wellcome	1,400	738	−22
Whitbread 'A'	748	408	−1
Williams Hldgs.	1,880	238	−8
Willis Faber	588	277	−3
Wimpey	310	243	−7

Based on trading volume for most Alpha securities dealt through the SEAQ system yesterday until 5 pm.

APPOINTMENTS

Empire Stores chairman

Mr Martin Mays-Smith (above) has been appointed deputy chairman of EMPIRE STORES GROUP and will take over as chairman on Mr John Gratwick's retirement in September. Mr Mays-Smith was a director of the Kleinwort Benson Group.

■ BRITISH COAL has appointed Mr Albert Wheeler, director of group operations, as regional director (Midlands and South); and Mr Len Harris becomes regional director (North).

■ Mr David Watson has been promoted to managing director of S. LYLES, SONS & CO, Dewsbury. He was assistant managing director.

■ Mr Alan White has joined TSB RETAIL BANK in the new post of director of premises. He was group estates director at Grand Metropolitan Estates.

■ THE GATES RUBBER COMPANY, Dumfries, has promoted Mr Charles Maclean as its first deputy managing director. He was director of the footwear division. The company makes the well-known green wellies.

■ Mr Tony Jones has been appointed sales director of LEX VEHICLE LEASING, Marlow. He was general sales manager, and replaces Mr John Pettit who has been promoted to operations director at Shaw & Kilburn.

■ FAIREY MICROFILTREX has appointed Mr Terence Stott to the board and as business manager of subsidiary Fairey Polymer Filtration. He has been with the company since 1984.

■ QBE INSURANCE (UK) has appointed Mr A.F. Steven Ahern as personal accident underwriter.

■ FARNELL ELECTRONICS has appointed Mr J. Barry Smith as a non-executive director. He recently retired as north east regional director, Midland Bank.

■ Mr Steve Warner has been appointed managing director of COPERNIQUE, Hemel Hempstead, UK subsidiary of the French company. He was with Bull HN Information Systems.

■ Mr Roderick Pearson is to join the board of RAGLAN PROPERTY TRUST as managing director on February 1, following his resignation as chief executive of Greycoat Shopping Centres. Mr David Anderson will step down as managing director but will remain as executive chairman until March 31, when he becomes non-executive chairman.

■ Mr Colin Gladwin has been promoted to managing director of Firth Cleveland Steels Strip, exporting subsidiary, steels and engineering division of GLYNWED INTERNATIONAL. He was technical director.

■ Appointed to the board of THORN EMI SOFTWARE are: Mr Christopher Birks, managing director, software sciences, commercial and financial; Ms Esther Dye, personnel director; and Mr Steve Ingham, technical director.

■ Mr Don Hales has been appointed managing director of SUN LIFE UNIT SERVICES following the retirement of Mr Ian Gillespie-Smith. Mr Hales was formerly deputy managing director of Sun Life Unit Services.

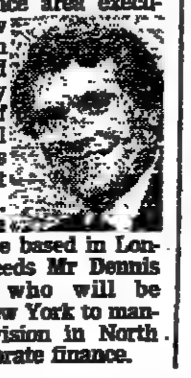
■ Dr Brian R. Masterson has been appointed deputy chairman of the CAIRD GROUP. He was operations director.

■ Mr Jeffrey Church, formerly with Banamax, has been appointed general manager of HAVANA INTERNATIONAL BANK, London.

■ Mr Alex Evans has been appointed managing director of ABBSEAL. Mr Evans has over the last year been a consultant for 3i and Cambridge Consultants. Mr John Balmer, who is recovering from illness, will rejoin the company in a new capacity.

■ SECURITY PACIFIC EUROFINANCE has appointed Mr David Edmondson as a vice president in its UK project and asset finance division. He joins from Wardley Australia in Perth where he was senior manager in corporate finance.

THE CHASE MANHATTAN BANK has appointed Mr Thompson M. Swayne (pictured), senior vice president, as corporate finance area executive. His new post has an expanded responsibility for all of Chase's global bank activities throughout Europe, Africa, and the Middle East. He will be based in London, and succeeds Mr Dennis C. Longwell who will be returning to New York to manage a new division in North American corporate finance.



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AUTHORISED UNIT TRUSTS

[illegible]

GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
[illegible]

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
[illegible]

TIME
[illegible]

HISTORIC PRICING
[illegible]

FORWARD PRICING
[illegible]

SCHEME PARTICULARS AND REPORTS
[illegible]

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	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Wardley Unit Tst Mngrs Ltd (0900)H						
3 Harbour Exchange Sqre, London E14 9GJ 01-955 5055						
American ♦	5¼	68.68	68.68	73.45	-0.17	1.5
Intl Growth ♦	5¼	82.15	82.15	87.86	-0.37	0.8
Income ♦	5¼	132.7	132.7	141.9	-0.70	4.8
Japan Growth ♦	5¼	238.1	238.1	254.6	-1.20	0.1
Pacific Perf ♦	5¼	155.7	155.7	166.5	-1.80	0.1
Small Co's ♦	5¼	133.8	133.8	143.1	-0.80	1.4
Technology	5¼	33.06	33.06	35.35	-0.38	0.1
Australia	5¼	63.21	63.21	67.40	+0.04	2.8
UK Trust ♦	5¼	179.8	179.8	192.2	-1.80	2.6
European Growth ♦	5¼	74.73	74.73	79.92	-1.34	0.1
Hong Kong ♦	5¼	32.66	32.66	34.93	-0.04	1.9
Intl Income	5¼	21.68	21.68	23.18		7.2
S'pore & Mlyn Gth	5¼	39.83	39.83	42.59	+0.09	0.1
British Wrnnts ♦	5¼	26.41	26.41	28.24	-0.41	2.2
Japan Smllr Cos ♦	5¼	32.53	32.53	34.79	-0.53	0.1
Waverley Unit Tst Mngmt Ltd (1000)F						
13 Charlotte Sq, Edinburgh 031-225 1551						
Australasian Gold	6	15.81	15.81	16.81	-0.20	0.00
Pacific Basin	6	29.84	29.84	31.74	-0.35	0.60
Can Balncd Gwth ♦	6	45.83	45.83	48.75	+0.43	0.10
Ginnie Mae ♦	4	0.9675	0.9705	1.0107	[illegible]	7.53
Penny Share	6	29.07	29.07	30.92	+0.11	0.50
Wellington Fund Mngrs Ltd (1200)F						
2, London Bridge, SE1 01-407 4404						
Wellington Income	5¼	144.3	147.0	156.4	-1.0	5.83
Wellington Growth	5¼	240.2	240.7	256.1	-1.6	1.56
Wessex Asset Management (1330)F						
1 Richmond Hill, Bournemouth BH2 6HW 0202 299432						
Wessex UK Gwth	4½	110.8	114.7	119.4	-1.6	3.93
Whittingdale Unit Tst Mgmt Ltd						
2 Honey Lane, London EC2V 8BT 01-606 3132						
Challenger ‡ F	2¼	61.34	61.34	62.91	+0.02	0.00
Short Dtd Gilt ♦ F	1¼	82.85	82.85	83.99	-0.14	6.01
U.S. Govmt Bond ♦ F	1¼	5.57%	.57%	.5871	[illegible]	0.00
Willbro Financial Services Ltd (0905)F						
PO Box 515, 6 Broadgate, London EC2 01-588 7511						
Aust Friars W'wide	5	206.6	210.1	223.5		2.36
Windsor Trust Mngrs Ltd (1200)F						
83 Kingsway, London, WC2B 6SD 01-405 8331						
Comthl & Equity	5	58.17	58.17	61.98	-0.42	7.42
European	5	81.88	82.17	87.41	-1.11	0.09
Far Eastern	5	79.12	79.44	84.51	+2.08	0.58
Growth Inc	5	78.77	78.27	83.97	-0.44	1.57

	Bid Price	Offer Price	+ or -	Yield Gross
AEtna Life Insurance Co Ltd — Contd.				
Bond	419.76	419.77	-1.40	—
Property	247.64	247.65	-0.73	—
Overseas Investment	312.05	312.06	-1.05	—
Pension Funds (Accumulation Units)				
Squirrel	15.94	16.78	+0.02	—
Bear	17.39	18.31	-0.06	—
Owl	23.21	24.44	-0.02	—
Bull	20.37	21.45	-0.07	—
Stag	19.84	20.89	-0.07	—
Gilt Edged		13.80	-0.04	—
Deposit		13.70	+0.01	—
North American	10.24	10.78	-0.10	—
European	12.31	12.96	-0.09	—
Property	12.08	12.72	+0.06	—
Index-Linked	12.02	12.66	-0.03	—
Far Eastern	14.25	15.00	-0.12	—
UK Equity	15.94	16.78	+0.01	—
Fixed Interest	12.06	12.70	-0.04	—
Gilt Edged (89)	9.98	10.51	-0.03	—
1982 Series				
Managed	299.86	315.63	-1.63	—
Pre 1982 Series				
Aetna Life				
3 Way	719.15	719.16	-3.72	—
Equity Pensions	1229.85	229.86	-9.36	—
Aetna Pensions Ltd				
3-Way Managed	641.65	641.68	-7.82	—
Exempt Approved				
Mixed Managed	220.52	225.09	-0.22	—
Gilt Edged		13.80	-0.04	—
Albany Life Assurance Co Ltd				
3 Darkes Lane, Potters Bar EN6 1AJ 0707 42311				
Life Funds				
Brit. Blue Chip Fd Acc(z)	146.6	154.3	+0.3	—
Equity Fd Acc(z)	1084.0	1141.0	+1.5	—
European Fd Acc(z)	287.6	302.7	-2.9	—
Intl. Fxd Int. Fd Acc(z)	211.5	222.6	-0.4	—
Fixed Int Acc(z)	346.0	364.1	+0.1	—
Gtd Money Fd Acc(z)	246.4	259.3	+0.1	—
High Income Fd Acc(z)	123.2	129.7	+0.2	—
Intl Man Fd Acc(z)	425.4	447.7	-3.0	—
Japan Fd(z)	307.8	324.0	-4.6	—
UK Smllr Co's Fd Acc(z)	112.5	118.3	+0.5	—
European Metro	127.8	134.5	-0.4	—
Global Metro	105.9	111.5	-1.1	—
Sunrise Metro	126.9	133.5	-0.2	—

OTHER UK UNIT TRUSTS

INSURANCES

Continued on next page

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Prolific Life & Pensions Ltd

Stramongate, Kendall, Cumbria LA9 4BE 0539 733733

Managed Fund see Balanced Growth Managed Fund

	Bid Price	Offer Price	+ or −	Yield Gross
Life Funds				
Balanced Grwth Mngd	617.1	650.3	−1.4	—
Adventurous Mngd	135.1	142.4	−0.6	—
Secure Mngd	111.6	117.7	−0.1	—
Cash Fd	245.3	258.5	...	—
Property Fund	301.5	317.8	...	—
Equity Fund	702.3	740.1	−2.3	—
Fxd. Int. Fund	295.1	311.0	[illegible]	—
International	326.5	347.4	+0.2	—
High Income	443.8	472.2	−2.1	—
Far East	455.2	484.3	−2.2	—
North American	270.7	288.0	−2.3	—
Special Sits	615.2	654.5	−4.6	—
Technology	257.3	273.8	−0.1	—
Extra Inc Fd	268.6	285.8	−1.9	—
Convertible & Gilt Fd	151.0	160.7	−0.4	—
American Income	131.3	139.7	+1.1	—
Gilt Fund 20	298.3	317.4	−2.7	—
European Fund	117.9	125.5	−1.4	—
Pref & Fixed Int.	*100.5*	*106.0*	−0.1	—
Equity Income Dist.	100.1	105.5	[illegible]	—
Managed Dist.	99.0	104.4	−0.2	—
Pension Funds				
Balncd Gth Mngd Pens Acc	599.1	630.7	−1.4	—
Adventurous Mngd Pens Acc	128.8	135.6	−0.1	—
Secure Mngd Pens Acc.	111.1	117.0	+0.1	—
Building Soc. Acc.	261.0	274.8	—	—
Property Pens. Acc.	309.1	325.4	...	—
Fix. Int. Pens. Acc.	417.2	439.2	−1.5	—
Equity Pens. Acc.	790.5	832.2	−2.1	—
International Pens Acc	317.0	333.7	+0.2	—
High Inc Pens. Acc.	496.8	523.0	−2.6	—
Tech Pens Acc.	163.9	172.6	...	—
N American Pens Acc.	186.5	196.4	[illegible]	—
Far Eastern Pens Acc.	446.1	469.6	−2.4	—
Special Sits Pens Acc.	515.5	542.7	−4.1	—
Extra Income Pens Fd.	332.5	[illegible]	−2.6	—
Convertible & Gilt Pen.	167.2	176.1	[illegible]	—
American Inc Pens.	145.2	152.9	+1.5	—
European Pens.	126.7	[illegible]	−2.0	—
Managed Cash Pens.	120.1	126.5	...	—

Property Equity & Life Ass. Co

Providence Capital Life Ass. Co Ltd

Provident Life Assc Ltd

Provident Mutual Life Assc. Assn.

Prudential Assurance Co

Prudential Holborn Life Ltd

Prudential Holborn Pensions Ltd

Prudential Pensions Limited

Regency Life Assurance Co Ltd

Reliance Mutual

Royal Heritage Life Assurance Ltd

20 Clifton St, EC2A 4BE

Royal Life Insurance Ltd

Royal Liver Assurance

Save & Prosper Group

Scottish Amicable

Scottish Equitable Life Assur. Soc.

Scottish Life Investments

Scottish Mutual Assurance Society

Scottish Mutual Investments

Scottish Mutual Investments—Contd.

Scottish Provident Institution

Scottish Widows' Group

Shield Assurance Ltd

Skandia Life Assurance Co Ltd

Skandia Life Assurance Co Ltd—Contd.

Standard Life Assurance Company

Sun Alliance Group

Sun Life of Canada (UK) Ltd

Sun Life Unit Assurance Ltd

Swiss Life (UK) PLC

TSB Life Ltd

Target Life Assurance Co Ltd

Target Life Assurance Co Ltd—Contd.

Teachers' Assurance Company Ltd

Tunbridge Wells Equitable

UK Life Assurance Co Ltd

Windsor Life Assur Co Ltd

Zurich Life Assurance Co Ltd

MANAGEMENT SERVICES

David M. Aaron (Personal Fin. Plans.) Ltd

The Analysis Group PLC

Blackstone Franks Plc

Chase de Vere PLC

Edinburgh Money Management Ltd

Gartmore Fund Managers Ltd

Henderson Financial Services

Knight Williams & Company Ltd

Murray Johnstone

Perpetual

Petley & Co Ltd

Roxborough Financial Management Ltd

OFFSHORE AND OVERSEAS

GUERNSEY (SIB RECOGNISED)

Rutland Inv Bkg & Inv Grp ("RIBIG")

Royal Bank of Canada Funds

JERSEY (SIB RECOGNISED)

Barclays International Funds

Capital House Fund Mgrs CI Ltd

John Govett (Channel Islands) Ltd

Hill Samuel Fund Managers (Jersey) Ltd

Lloyds Bank CI U/T Mgrs

MIM Britannia International Fund Mgrs (Jersey) Ltd

Royal Trust Jsy Fd Mngt Ltd

Save & Prosper International

TSB Trust Funds (CI)

IoM (SIB RECOGNISED)

Allied Dunbar International Fund Mgrs

Gartmore Fund Managers (IoM)

LUXEMBOURG (SIB RECOGNISED)

Fleming Group

Foreign & Colonial Management Ltd

Gartmore Luxembourg SA

Henderson Management SA

Ivory & Sime (Luxembourg) SA

Wardley Investment Services (Lux) S.A.

SWITZERLAND (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (**)

Kleinwort Benson Intl Fd Mngrs Ltd

Lazard Fund Managers (CI) Ltd

Midas Capital Mgmt (Europe) Ltd

Stronghold Asset Management Ltd

FT UNIT TRUST INFORMATION SERVICE

JERSEY (**)

ISLE OF MAN (**)

LUXEMBOURG (**)

OFFSHORE INSURANCES

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

BRITISH FUNDS

1989/90 High	Low	Stock	Price £	+ or −	Yield Int.	Red.
		"Shorts" (Lives up to Five Years)				
99¾	98¾	Exch 11pc 1990‡‡	99¼xd	.....	11.03	14.53
101	99	Exch. 12½pc 1990	99½	−⅛	12.56	14.94
97½	91	Treas. 3pc 1990	97	.....	3.08	12.13
97	95½	Treas 8¼pc 1987-90‡‡	97	.....	8.44	14.08
98	95¼	Treas. 8pc Cv 1990‡‡	97	+⅛	8.23	14.17
98	96	Treas. 10pc Cv 1990	96	+⅛	10.34	14.55
93	87	Exch 2½pc 1990	93	+⅛	2.68	11.06
101	97	Treas 11¾pc 1991	97		12.01	14.18
93¼	89	Funding 5¾pc '87-91‡‡	92¾	−⅛	6.20	12.35
90	86	Treas. 3pc 1991	90¼	−⅛	3.32	11.11
100	95	Treas 10pc Cv '91‡‡	95	+⅛	10.46	13.37
101	96	Exch. 11pc 1991	96	−⅛	11.40	13.28
94	91	Treas. 8pc 1991	91	.....	8.74	13.18
106	99	Treas 12¾pc 1992‡‡	99	−⅛	12.76	12.79
99	94	Treas 10pc 1992	94	.....	10.53	12.84
94	90	Treas. 8pc 1992‡‡	90	−⅛	8.80	12.76
100¼	95	Treas 10½pc Cv 1992‡‡	95	−⅛	10.95	12.61
85	82¼	Treas. 3pc 1992	83	−⅛	3.56	10.60
105	98	Exch. 12¼pc '92	98	−⅛	12.37	12.68
109¼	102	Exch 13½pc 1992	102	−⅛	13.22	12.50
94	[illegible]	Treas 8¾pc 1993	89¾xd	−⅛	9.18	12.30
100	94	Treas 10pc 1993‡‡	94	−⅛	10.59	12.11
108¼	101	Treas 12½pc 1993‡‡	101	−⅛	12.37	12.11
88	84	Funding 6pc 1993‡‡	85	−⅛	7.04	10.99
113¼	105	Treas 13¾pc 1993‡‡	105	−⅛	13.06	11.99
94	89	Treas. 8½pc 1994	89	−⅛	9.53	11.96
117	108	Treas 14½pc 1994‡‡	108	−⅛	13.35	11.79
113	105	Exch 13½pc 1994	105	−⅛	12.83	11.89
100	94	Treas. 10pc Ln. 1994‡‡	94	−⅛	10.61	11.69
110¼	102¼	Exch. 12½pc 1994	102¼xd	.....	12.22	11.85
96	90	Treas 9pc 1994‡‡	90	−⅛	9.96	11.65
		Five to Fifteen Years				
108	100	Treas 12pc 1995	100xd	−⅛	11.89	11.74
79¾	72	Exch 3pc Gas 90-95	75½	.....	3.97	8.62
101	94	Exch. 10¼pc 1995	94xd	−⅛	10.83	11.60
113	105	Treas 12¾pc 1995‡‡	105	−⅛	12.11	11.46
119	109	Treas. 14pc '96	109xd	−⅛	12.76	11.70
97	89	Treas. 9pc 1992-96‡‡	89	−⅛	10.04	11.38
126	116	Treas 15¼pc 1996‡‡	116½	−⅛	13.10	11.50
117	107	Exch 13¼pc 1996‡‡	107	−⅛	12.28	11.45
101	93	Conversion 10pc 1996	93	−⅛	10.67	11.34
118	108	Treas 13¼pc 1997‡‡	108xd	−⅛	12.17	11.37
104	96	Exch 10½pc 1997	96xd	−⅛	10.92	11.31
95	88	Treas 8¾pc 1997‡‡	88	−⅛	9.93	11.10
128	117½	Exch 15pc 1997	117½	−⅛	12.76	11.50
100	92	Exch. 9¾pc 1998	92xd	−⅛	10.50	11.16
84	78	Treas 6¾pc 1995-98‡‡	78	−⅛	8.60	10.73
134	122	Treas. 15½pc '98‡‡	122	−⅛	12.63	11.31
113	104	Exch. 12pc 1998	104	−⅛	11.53	11.24
100	92	Treas 9½pc 1999‡‡	92	−⅛	10.30	10.87
115	105	Exch. 12¼pc 1999	105	−⅛	11.57	11.20
105	96	Treas 10½pc 1999	96	−⅛	10.89	11.07
104	95	Conversion 10¼pc 1999	95	−⅛	10.75	11.03
94	86	Treas. 8½pc Ln 2000‡‡	86xd	−⅛	9.86	10.77
97	89	Conversion 9pc 2000‡‡	89	−⅛	10.09	10.78
122	111	Treas. 13pc 2000	111	−⅛	11.70	11.17
103	94	Treas 10pc 2001	94	−⅛	10.66	10.88
124	113	Treas. 14pc '98-01	113	−⅛	12.34	11.45
102	93	Conversion 9¾pc 2001	93xd	−⅛	10.48	10.82
113	104	Exch. 12pc '99-02	104xd	−⅛	11.54	11.27
104	94	Conversion 10pc 2002	94	−⅛	10.54	10.76
102	93	Treas 9¾pc 2002	93	−⅛	10.48	10.73
97	88½	Exch. 9pc 2002	88½	−⅛	10.18	10.67
126	115	Treas. 13¾pc 2000-03	115xd	−⅛	11.91	11.21
105	95	Treas 10pc 2003	95	−⅛	10.45	10.60
113	103	Treas. 11½pc 2001-04	103	−⅛	11.17	11.02
106	96	Treas. 10pc 2004	96	−⅛	10.42	10.54
59	54	Funding 3½pc '99-04	54	+⅛	6.49	9.38
102	92	Conversion 9½pc 2004	92	−⅛	10.29	10.45
		Over Fifteen Years				

BRITISH FUNDS—Contd

1989/90 High	Low	Stock	Price £	+ or −	Yield Int.	Red.
103	92¾	Conversion 9½pc 2005	92¾	−¼	10.23	10.44
111¼	100⅝	Exch. 10½pc 2005	100⅝	−¼	10.44	10.42
125	113	Treas. 12½pc 2003-05	113	−⅛	11.04	10.64
90¾	81	Treas. 8pc 2002-06‡‡	81	−⅛	9.82	10.35
118	107¼	Treas. 11¾pc 2003-07	107¼xd	−⅛	10.91	10.64
96	86	Treas 8½pc 2007‡‡	86	−⅛	9.84	10.18
134¾	121	Treas. 13½pc '04-08	121	−⅛	11.13	10.57
101	90	Treas 9pc 2008‡‡	90	−⅛	9.92	10.11
94	90¼	Treas. 9pc 2008 B	90	−⅛	9.92	10.11
92	82	Treas 8pc 2009	82	−⅛	9.71	10.07
102	91	Conv 9pc Ln 2011‡‡	91xd	−⅛	9.89	10.03
68¾	60	Treas. 5½pc 2008-12‡‡	60	+⅛	9.06	9.87
89¾	79	Treas. 7¾pc 2012-15‡‡	79xd	+⅛	9.75	9.99
132	117	Exch. 12pc '13-'17	117	−⅛	10.22	10.05
		Undated				
45⅝	39	Consols 4pc	40xd	+⅛	10.00	−
40⅝	35	War Loan 3½pc‡‡	35¾	+⅛	9.89	−
70	60	Conv. 3½pc '61 Aft.	60	+⅛	5.76	−
41	31	Treas. 3pc '66 Aft.	31	+⅛	9.54	−
30¼	24	Consols 2½pc	24	+⅛	10.03	−
29½	24	Treas. 2½pc	24	+⅛	10.18	−

Index-Linked

1989/90 High	Low	Stock (b)	Price £	+ or −	(1)	(2)
112¼	103	Tr. 2pc '92‡‡(97.8)	112	−⅛	3.38	4.51
105	94	Do. 2 '94 (102.9)	105	−⅛	3.10	3.66
156	139	Do. 2pc '96(67.9)	155	−⅛	3.10	3.48
131	118	Do 2½pc '01(78.3)	130	−⅛	3.51	3.75
128	115	Do 2½pc '03(78.8)	127	−⅛	3.58	3.79
131	117	Do. 2pc '06(69.5)	130¼xd	−⅛	3.60	3.77
123	110	Do. 2½pc '09(78.8)	121	−⅛	3.59	3.75
128	114	Do. 2½pc '11(74.6)	126	−⅛	3.58	3.73
107	95¼	Do. 2½pc '13(89.2)	105¼xd	−⅛	3.56	3.70
115	101	Do. 2½pc '16(81.6)	113xd	−⅛	3.52	3.65
113	100	Do. 2½pc '20(83.0)	111¼	−⅛	3.48	3.60
95	84	Do. 2½pc '24‡‡(97.7)	93	−⅛	3.43	3.54

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base month for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for April 1989: 114.3 and for November 1989: 118.5.

INT. BANK AND O'SEAS

1989/90 High	Low	Stock	Price £	+ or −	Yield Int.	Red.
108	96	African Dv Bk 11¼ Ln 2010	96	−⅛	11.47	11.51
104	93	Asian Dev Bk 10¼pcLn2009	93	.....	11.01	11.13
130	116	Australia 13½pc 2010	116	−⅛	11.76	11.38
113	100¼	Do. 11½pcLn2015	100¼	−⅛	11.35	11.34
110	97	Euro Inv Bk 11pc Ln 2002	97	−⅛	11.27	11.35
119	106	In-Am Dev Bk 12½pc 2003	106	.....	11.72	11.50
99¼	87	Do. 9¾pcLn 2015	87	−⅛	11.19	11.18
97½	89	Mlysia 10¾pcLn 2009	89	.....	12.08	12.24
120	110	Utd. Mexican States 16½pc 2008	110	.....	15.00	14.90

CORPORATION LOANS

1989/90 High	Low	Stock	Price £	+ or −	Yield Int.	Red.
111½	95½	Birmingham 11½pc 2012	100½	.....	11.44	11.40
91	85	GLC 6¾pc 1990-92	88½xd	.....	7.63	12.80
124½	115½	Leeds 13½pc 2006	115½	.....	11.69	11.69
93	29	Liverpool 3½pc Irred	30	.....	11.67	−
95½	92	LCC 6¾pc '88-90	95½xd	.....	7.07	11.60
30	26	Do 3pc '20 Aft.	26	.....	11.54	−
107½	99½	Manchester 11½pc 2007	100½	.....	11.44	11.40

COMMONWEALTH & AFRICAN LOANS

1989/90 High	Low	Stock	Price £	+ or −	Yield Int.	Red.
89½	86½	NZ 7¼pc 1988-92	87¼	.....	8.31	12.50
206	206	S Rhod 2½pc Non-Assd.	206	.....	−	−
84½	84½	Do. 4½pc 87-92 Assd.	84½	.....	5.33	9.33

LOANS

1989/90 High	Low	Stock	Price £	+ or −	Yield Int.	Red.
		Building Societies				
100½	98¾	N'wide Anglia 12¾pc 29.1.90	99	.....	12.57	15.28
100	98¾	Do. 12¾pc 26.2.90	99	.....	12.74	15.39
100	98	Do. 12¾pc 19.3.90	99	.....	12.94	15.34
100	98	Do. 13½pc 23.4.90	99	.....	13.45	15.26
100	98	Do. 13pc 14.5.90	99¼	.....	13.10	15.23
100	98¾	Do. 13¾pc 4/6/90	99	.....	13.77	15.22
100	99⅛	Do. 14¾pc 2.7.90	99xd	.....	14.36	15.03
100¼	98	Do. 13¾pc 23.7.90	99	.....	13.71	14.97
100	98	Do. 13¾pc 13.8.90	99xd	.....	13.53	14.90
100	98	Do. 13½pc Bds 3.9.90	99	.....	13.63	14.85
109	98½	Do 3⅞pcIL Ln 2021	108	.....	4.31	4.49
109	99⅛	Do. 4.25pcIL '24	107½	.....	4.28	4.29
		Public Board and Ind.				
47	43	Met. Wtr. 3pc 'B'	45xd	.....	6.67	10.36

FOREIGN BONDS & RAILS

1989/90 High	Low	Stock	Price £	+ or −	Div % Gross	Red. Yield
50	40	Greek 7pc Ass.	50	.....	3.50	17.00
50	40	Do. 6pc 28 Stb. Ass.	50	.....	[illegible]	16.00
50	40	Do 4pc Mixed Ass.	50	.....	[illegible]	14.00
80	65	Hung. '24 Ass.	80	.....	2.75	13.57
139	124	Hydro Quebec 15pc 2011	124	−¼	15.00	11.84
128	113½	Iceland 14½pc Ln 2016	113½	−½	14.50	12.70
97¼	89½	Ireland 9¾pc '91-96	89½	−¼	10.89	12.00

AMERICANS

1989/90 High	Low	Stock	Price £	+ or −	Div Gross	C'vr	Y'ld Gr's
44	26½	Abbott Laboratories	39½xd	−⅛	$1.40	−	2.2
579p	361p	♦Allegheny & W 1c	580p	+21	30c	−	[illegible]
18¾	12	Amax $1	15½xd	+½	80c	−	3.3
11¾	6	Ambase Corp $1	6	+⅛	20c	−	1.9
15	695p	Amdahl 5c	848pxd	−19	h10c	−	0.7
37¾	25½	Amer Cyanamid $5	32½	+⅛	$1.35	−	[illegible]
25	14	Amer Express 60c	19¾xd	+⅛	92c	−	[illegible]
29	15	American T. & T $1	25	−⅛	$1.20	−	[illegible]
42¼	26	Ameritech $1	36¼	−⅛	h$2.92	−	[illegible]
659p	490p	♦Asiamerica Equity	538p	+15	−	−	−
22	9⅝	BankAmerica $1	15xd	−⅛	60c	−	2.4
37	19½	Bankers N.Y. $1	23¾xd	−⅛	$2.12	−	[illegible]
70¾	38½	Bell Atlantic $1	59½	+⅛	$4.40	−	[illegible]
36	19	BellSouth Corp.	31¼	−⅛	$2.52	−	5.1
15	9¼	♦Bethlehem Steel $8	10xd	+⅛	40c	−	2.4
12	[illegible]	Bio-Rad Labs. A	10¼	+⅛	−	−	−
20	15	Bowater Inc.	16	+⅛	$1.20	−	4.7
12	8	Brunswick 75c	8xd	+⅛	44c	−	3.3
46	28	CPC Intnl 25c	41	−⅛	$1.80	−	2.8
863p	333p	California Engy	731p	+17	−	−	−
36	17	Campbell Soup 15c	30xd	+⅛	$1.00	−	[illegible]
28	15	Chase Manhattan $12½	19xd	+⅛	$2.36	−	7.7
26	17	Chem. Banking Corpn.	17	+⅛	$2.72	−	9.6
17½	10	Chrysler $6¼	10xd	+⅛	$1.20	−	6.9
22	14	Citicorp $1	15xd	−⅛	$1.62	−	6.5
41	25	Colgate-Palmolive $1	37½xd	+⅛	s$1.48	−	2.5
17¼	10	Cont'l Bank Corp $4	11½	.....	$1.00	−	5.5
410p	218p	♦Corporate Data Sence	291p	.....	−	−	−
27½	19	Dana Corp. $1	19xd	−⅛	$1.60	−	5.1
12	673p	Data General	674p	+1	−	−	−
38	26	Dun & Bradstreet $1	26	−⅛	$2.00	−	4.9
43¼	24½	Eaton Corpn. 50c	32¼	+⅛	h$2.00	−	3.9
11	8	Echlin Inc	8	+⅛	70c	−	5.0
22	16	FPL Group 1c	20xd	+⅛	$2.28	−	7.1
23	13	Fluor Corp 62½pc	22	−⅛	24c	−	0.7
35	25	Ford Motor $1	26xd	.....	$3.00	−	7.3
41	24	Gen. Elect. 63c	37	+⅛	$1.88	−	3.1
579p	304p	♦General Host Corp $1	333p	−4	30c	−	5.7
39	18	Gillette $1	27	−⅛	96c	−	2.2
987p	357p	Gt American Bank Bk $1	409p	+13	20c	−	3.1
23	16	Greyhound $1½	18	−⅛	$1.32	−	4.6

Continued on next page

International Speciality Fund

Nomura Asia Europe Fund

Nomura Dragon Global Fund

JC Global Fund—SICAV

Nomura Growth Fund SA

Nomura Prudential Fd Pt II

Skandifond—Contd

Bank of Scotland
38 Threadneedle St, EC2P 2EH. 01 601 6746

Barclays Capital Advantage Account
94 St Paul's Churchyard EC4M 8EH 01-248 9155

Barclays Prime Account H.I.C.A.

Money Market Trust Funds

Money Market Bank Accounts

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AMERICANS—Contd

1989/90 High	Low	Stock	Price £	+ or -	Div Gross	C'vr	Y'ld Gr's
15¾	847p	Hasbro Inc 50c	12	....	16c	-	0.8
57½	32¾	Honeywell $1½	50¾	+¼	$2.75	-	3.4
22⅝	15¼	Houston Inds ‡	21	+½	$2.96	-	8.9
76	58¾	IBM Corpn $1¼	59	+¼	$4.84	-	[illegible]
60p	45p	Image Storage/R Sys 1c	45p	-3	-	-	-
32⅞	18¾	Ingersoll-Rand $2	[illegible]	-¼	$1.20	-	2.5
33¼	22½	Lockheed Crpn $1	24		$1.80	-	4.7
22⅝	8⅝	Lone Star Inds $1	8½	-¼	$1.90	-	13.9
26	17½	Louisiana Land 15c	24¼	-½	$1.00	-	[illegible]
20½	11½	Lowe's 50c	16	-½	52c	-	2.1
28	15	Manuf. Hanover $1	19	+¼	[illegible]	-	10.6
22⅝	13	Merrill Lynch $1	14¼	.....	$1.00	-	4.3
24¾	19⅛	Molex Inc	22¼	+½	3.3	-	-
30¾	18¾	Morgan (JP) $2½	23	-1	$1.62	-	5.0
28	23	Morris (Philip)	[illegible]	-¼	$1.13	-	3.1
56⅝	36¾	NYNEX $1	50		$3.36	-	5.5
44p	11p	N'wide Legal Serv.‖	19p	+1	-	-	-
24⅝	16¾	PHH Corp ‡	20	+¼	[illegible]	-	[illegible]
259p	167p	Pacific Agr ‖	187p		-	-	-
29⅝	19	Pacificorp $3¼	27¼	-½	$2.76	-	6.2
31⅞	16⅞	Pacific Telesis 10c	28		$1.88	-	4.2
22⅞	15¼	Pall Corp. 25c	20	-¼	[illegible]	-	1.5
55¾	39	Pennzoil $3 1/3c	50	-¼	$3.00	-	3.8
42¼	28¾	Quaker Oats $5	33	+¼	$1.40	-	2.6
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CANADIANS

[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS—Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY AND STORES—Contd

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING—Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.)—Contd

[illegible]

INDUSTRIALS (Miscel.)—Contd.

[illegible]

INSURANCES

[illegible]

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PAPER, PRINTING, ADVERTISING

PAPER, PRINTING, ADVERTISING – Contd

PROPERTY

SHOES AND LEATHER

SOUTH AFRICANS

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TOBACCOS

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TRUSTS, FINANCE, LAND

Investment Trusts

TRUSTS, FINANCE, LAND – Contd

Finance, Land, etc

WATER

For other Water Issues see London Recent Issues

OIL AND GAS

OIL AND GAS – Contd

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

MINES – Contd

Tins

Miscellaneous

THIRD MARKET

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ◆ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially listed.
- ‖ Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- ♣ Not comparable
- ◆ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend; cover on earnings updated by latest interim statement
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ★ Cover does not allow for shares which may also rank for dividend at a future date. No P/E usually provided.
- ‖ No par value

B.Fr. Belgian Francs. Fr. French Francs. ¶¶ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1990. L Estimated annualised dividend, cover and P/E based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date. Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p ... γ	89	-1
Craig & Rose £1 . γ	830	......
Finlay Pkg. 5p.... γ	57	......
Holt (Jos) 25p..... γ	1348	......

IRISH

Cap. 8½% Ln. 1991...	£96¼	......
9pc Cap Ln 1996..	£96½	......
Fin. 13% 97/02...	£115	......
Arnotts..............	415	+10
Carrol (P.J.) ..... γ	168	-5
Hall (R. & H.).......	185	......
Helton Hldgs. ...... γ	90	-10
IRG..................	206d	......
United Drug.........	170	......

TRADITIONAL OPTIONS

3-month call rates

Industrials

	p
Allied-Lyons	41
Amstrad	6½
Astec (BSR)	5¼
BAT	67
BOC Grp.	44
BTR	37
Barclays	40
Blue Circle	28
Boots	23
Bowaters	39
Brit Aerospace	46
British Steel	9
Brit. Telecom	22
Cadburys	31
Charter Cons.	42
Comm Union	40
Courtaulds	32
Eurotunnel	65
FKI	8
FNFC	22
Gen Accident	92
GEC	19
Glaxo	60
Grand Met	44
Guardian	19
GKN	33
Hanson	18
Hawker Sidd.	55
ICI	90
Jaguar	85
Ladbroke	25
Legal & Gen	31
Lex Service	26
Lloyds Bank	21
Lucas Inds	54
Marks & Spencer	16
Midland Bk.	26
Morgan Grenfell	38
Nat West Bk	25
P & O Dfd	51
Polly Peck	38
Racal Elect.	20
RHM	39
Rank Org Ord	72
Reed Intnl.	34
STC	25
Sears	9
SmKl. Beecham A.	48
TI	38
TSB	9
Tesco	16
Thorn EMI	63
Trust Houses	23
T&N	16½
Unilever	57
Vickers	22
Wellcome	55

Property

Brit Land	27
Control Secs	5
Land Securities	45
MEPC	45
Mountleigh	13

Oils

Brit Petroleum	25
Burmah Oil	65
Charterhall	2½
Conroy Petlm	9
Premier	10½
Shell	37
Tuskar Res.	12
Ultramar	28½

Mines

Lonrho	29
RTZ	45

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar's advance falters

THE DOLLAR showed small mixed changes yesterday as New York traders took a more cautious view than their European counterparts of events in the Soviet Union.

Europe drove the dollar higher on Monday, when New York was effectively closed for Martin Luther King Day. This reflected a flight into the dollar, as the threat of civil war in part of the Soviet Union led the market to look for a safe haven for funds. When US dealers decided not to accelerate the trend yesterday, the dollar fell back on profit-taking to finish in London slightly lower against the D-Mark and Japanese yen.

Earlier in Tokyo - as the market also returned from a public holiday on Monday - dealers described the Soviet political picture as muddled, but it took substantial intervention by the Bank of Japan to pull the dollar back from a peak of Y146.05.

The US currency finished in Tokyo at Y145.75 and in London declined to Y145.45 from Y145.50. At the London close the dollar had also fallen to DM1.6945 from DM1.6960, but rose to SFr1.5160 from SFr1.5120 and to FFr5.7625 from FFr5.7575. On Bank of England figures the dollar's index advanced to 67.3 from 67.1.

The French franc benefitted from the recent movement of speculative money out of the D-Mark, and from a smaller than expected rise of 0.1 per cent in December French consumer prices, keeping the year-on-year inflation rate at 3.6 per cent. This enabled the Bank of France to send a favourable signal on interest rates to its domestic money market.

The central bank added a net FFr16bn to the banking system, at an unchanged intervention rate of 10 per cent. The allocation was FFr19.3bn, but FFr3.3bn drained from the market as an earlier facility expired. Dealers said that the move was partly technical but showed that the Bank of France is no longer as concerned about the value of the franc against the D-Mark.

In Paris the D-Mark was fixed at its lowest level against the franc for nearly two months. The fixing of FFr3.4017, against FFr3.4025 on Monday, was the weakest since November 20. At the London close the German currency had fallen to FFr3.4007.

The Italian lira remained the strongest member of the European Monetary System and was slightly firmer against the D-Mark. The German unit was fixed at L745.15 in Milan, against L745.65 previously, and closed in London at L745.05. All EMS currencies remained within their cross rate limits.

Sterling gave up Monday's gains against European currencies, as speculation faded about an early rise in UK bank base rates. The pound lost 70 points against the dollar to $1.6560. It also fell to DM2.8050 from DM2.8200; to SFr2.5100 from SFr2.5150; to FFr9.5425 from FFr9.5750; and to Y240.75 from Y242.00. Sterling's index declined 0.2 to 88.3.

£ IN NEW YORK

Jan.16	Latest	Previous Close
£ Spot	1.6530-1.6540	1.6615-1.6625
1 month	1.01-1.00pm	0.98-0.97pm
3 months	2.75-2.72pm	2.67-2.64pm
12 months	9.55-9.45pm	9.10-9.00pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Jan.16	Previous
8.30 am	88.6	88.4
9.00 am	88.5	88.4
10.00 am	88.5	88.5
11.00 am	88.5	88.5
Noon	88.5	88.6
1.00 pm	88.5	88.6
2.00 pm	88.5	88.6
3.00 pm	88.4	88.5
4.00 pm	88.3	88.5

CURRENCY RATES

Jan 16	Bank rate %	Special* Drawing Rights	European † Currency Unit
Sterling #	-	N/A	1.38484
U.S Dollar	7	N/A	1.19364
Canadian $	12.46	N/A	1.39059
Austrian Sch.	6½	N/A	14.3427
Belgian Franc	10¼	N/A	42.6844
Danish Krone	10½	N/A	[illegible]
Deutsche Mark	6.00	N/A	2.03730
Neth.Guilder	7.00	N/A	2.29763
French Franc	10¼	N/A	6.92966
Italian Lira	13½	N/A	1517.77
Japanese Yen	[illegible]	N/A	173.734
Norway Krone	[illegible]	N/A	7.83384
Spanish Peseta	-	N/A	131.909
Swedish Krona	9½	N/A	7.38383
Swiss Franc	6.00	N/A	1.82447
Greek Drach.	20½	N/A	190.015
Irish Punt	-	N/A	0.770834

Sterling quoted in terms of SDR and ECU per £.
† European Commission Calculations.
* All SDR rates are for Jan.15

CURRENCY MOVEMENTS

Jan.16	Bank of England Index	Morgan** Guaranty Changes %
Sterling	88.3	N/A
U.S Dollar	67.3	N/A
Canadian Dollar	104.4	N/A
Austrian Schilling	110.0	N/A
Belgian Franc	109.5	N/A
Danish Krone	108.6	N/A
Deutsche Mark	118.8	N/A
Swiss Franc	108.1	N/A
Guilder	[illegible]	N/A
French Franc	[illegible]	N/A
Lira	[illegible]	N/A
Yen	[illegible]	N/A

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100). **Rates are for Jan.15

OTHER CURRENCIES

Jan.16	£	$
[illegible]	[illegible]	[illegible]
Taiwan	42.85-42.95	25.90-25.95
U.A.E.	6.0895-6.0945	3.6725-3.6735

*Selling rate

EURO-CURRENCY INTEREST RATES

Jan 16	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	15-14¾	15⅛-14 13/16	15 3/16-15 1/16	15¼-15⅛	15¼-15⅛	15⅛-15
US Dollar	8¼-8⅛	8¼-8⅛	8¼-8⅛	8¼-8⅛	8⅜-8¼	8⅜-8¼
Can Dollar	12¼-11¾	12¼-11¾	[illegible]	12-11¾	11 13/16-11 11/16	11⅞-11⅝
D Guilder	8⅜-8¼	8⅜-8¼	8 11/16-8 9/16	[illegible]	9⅛-8⅞	9⅛-8⅞
Sw. Franc	9⅛-9⅞	9⅛-9⅞	9⅛-9⅞	9⅝-9½	9⅝-9½	9⅝-9½
Deutschmark	7 11/16-7 9/16	8-7⅞	8⅛-8⅛	[illegible]	8⅝-8½	8 11/16-8⅝
Fr. Franc	10 13/16-10 11/16	10 13/16-10 11/16	11-10⅞	11¼-11⅛	11⅜-11¼	11⅜-11¼
Italian Lira	13-11	13-12	12¾-12½	12¾-12½	12¾-12½	13¼-13
B Fr. (Fin)	10¼-10⅛	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
B Fr. (Con)	10⅛-10	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Yen	6⅞-6¾	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D.Krone	12¼-12	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	8⅜-8¼	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Long term Eurodollars: two years 8⅜-8¼ per cent; three years 8⅜-8¼ per cent; four years 8⅜-8¼ per cent; five years 8⅜-8¼ per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

POUND SPOT- FORWARD AGAINST THE POUND

Jan 16	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.6485-1.6600	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canada	1.9195-1.9285	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Netherlands	3.16-3.16½	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Denmark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
W. Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portugal	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spain	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Austria	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ECU	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Commercial rates taken towards the end of London trading. Belgian rate is convertible francs. Financial franc 58.75-58.85. Six-month forward dollar [illegible]

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

Jan.16	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ireland†	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canada	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Denmark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
W. Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portugal	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spain	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Austria	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ECU	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Commercial rates taken towards the end of London trading. † UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc [illegible]

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu Jan.16	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
German D-Mark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Irish Punt	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

EXCHANGE CROSS RATES

Jan.16	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
$	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
DM	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
YEN	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
F Fr.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
S Fr.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
H Fl.	[illegible]	[illegible]	3.015	0.793	1	1.514	660.7	0.609	18.58	[illegible]
Lira	[illegible]	[illegible]	4.564	1.200	1.514	1000.	0.922	[illegible]	[illegible]	[illegible]
C $	[illegible]	[illegible]	4.952	1.303	1.642	1085	1	30.51	[illegible]	[illegible]
B Fr.	[illegible]	[illegible]	16.23	4.269	5.383	3556	3.277	100.	[illegible]	[illegible]

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FINANCIAL FUTURES AND OPTIONS

LIFFE LONG GILT FUTURES OPTIONS — [illegible]

LIFFE US TREASURY BOND FUTURES OPTIONS — [illegible]

LIFFE BUND FUTURES OPTIONS — [illegible]

LIFFE £/$ OPTIONS — [illegible]

LIFFE EURODOLLAR OPTIONS — [illegible]

LIFFE SHORT STERLING OPTIONS — [illegible]

PHILADELPHIA SE £/$ OPTIONS — [illegible]

CHICAGO

U.S. TREASURY BONDS (CBT) 8% $100,000 32nds of 100% — [illegible]

U.S. TREASURY BILLS (IMM) $1m points of 100% — [illegible]

SWISS FRANC (IMM) — [illegible]

JAPANESE YEN (IMM) — [illegible]

DEUTSCHE MARK (IMM) — [illegible]

THREE-MONTH EURODOLLAR (IMM) $1m points of 100% — [illegible]

STANDARD & POORS 500 INDEX — [illegible]

POUND-$ (FOREIGN EXCHANGE) — [illegible]

LONDON (LIFFE)

20-YEAR 9% NOTIONAL GILT — [illegible]

US TREASURY BONDS 8% — [illegible]

6% NOTIONAL GERMAN GOVT. BOND — [illegible]

6% NOTIONAL LONG TERM JAPANESE GOVT. BOND — [illegible]

THREE MONTH STERLING — [illegible]

THREE MONTH EURODOLLAR — [illegible]

THREE MONTH EUROMARK — [illegible]

THREE MONTH ECU — [illegible]

FT-SE 100 INDEX
£25 per full index point

	Close	High	Low	Prev.
Mar	2379.0	2397.0	2353.0	2397.0
Jun	2421.0	2407.0	2400.0	2440.0
Sep				

Estimated volume 8054 (5356)
Previous day's open int. 23434 (23873)

EUROPEAN OPTIONS EXCHANGE

Series		Vol	Last	Vol	Last	Vol	Last	Stock
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Philips C	Fl. 45	926	0.10	899	[illegible]			
Philips P	Fl. 45	1364	1.70	842	4			
Royal Dutch C	Fl. 140	824	1	329	6			
Royal Dutch P	Fl. 140	418	2.30	205	5.70			
Unilever C	Fl. 140	448	0.10	200	[illegible]			
Unilever P	Fl. 145	165	0.40	634	3.30			
Van Ommeren C	Fl. 40	574	[illegible]	1271	2.20			
Van Ommeren P	Fl. 35	98	0.20	[illegible]	1.50			

TOTAL VOLUME IN CONTRACTS : 76,809
A=Ask B=Bid C=Call P=Put

MONEY MARKETS

London rates calm

THERE WAS a calmer tone on the London money market yesterday, after Monday's shock of sharply increased UK retail sales in December. Three-month sterling interbank eased to 15¼-15⅛ from 15 5/16-15 3/16 per cent. One-year money declined to 15 1/16-14 15/16 per cent in early trading, but closed unchanged at 15⅛-15 per cent.

On Liffe March short sterling futures opened down at 84.79, but this was the day's low. The contract rallied slightly, to finish at 84.84, against Monday's 84.81.

There was a very large day-to-day credit shortage. This was initially forecast at £1,250m, but was revised to £1,300m at noon, and back to £1,250m in the afternoon. Total assistance of £1,190m was provided.

An early round of help was offered and at that time the authorities bought £441m bills outright, by way of £4m bank bills in band 1 at 14⅞ per cent and £437m bank bills in band 2 at 14¾ per cent.

Before lunch the Bank of England purchased another £488m bills, via £35m bank bills in band 1 at 14⅞ per cent; £15m Treasury bills in band 2 at 14¾ per cent; and £438m bank bills in band 2 at 14¾ per cent.

In the afternoon £246m bills were bought, through £189m bank bills in band 1 at 14⅞ per cent; £10m Treasury bills in band 2 at 14¾ per cent; and £47m bank bills in band 2 at 14¾ per cent. Late assistance of around £15m was provided.

Bills maturing in official hands, repayment of late assistance and a take-up of Treasury bills drained £402m, with Exchequer transactions absorbing £830m, and bank balances below target £125m. These outweighed a fall in the note circulation adding £110m to liquidity.

In Frankfurt call money firmed slightly to 7.70 from 7.65 per cent, after the Bundesbank offered liquidity to the banking system, via a two-tranche securities repurchase agreement tender at variable bid rates. Banks were invited to bid for funds for 28 and 56 days. This was to offset DM25.6bn draining from the market today, as two earlier pacts expire.

In Amsterdam the Dutch Central Bank lowered its special advances rate to 8.4 from 8.5 per cent. This is the rate at which the authorities provide money market liquidity, and was last cut in June. The new facility runs for six days from today, replacing a seven-day agreement.

UK clearing bank base lending rate 15 per cent from October 5

FT LONDON INTERBANK FIXING

(11.00 a.m. Jan.16) 3 months US dollars		6 months US Dollars	
bid 8¼	offer 8⅜	bid 8⅜	offer 8½

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted to the market by five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque National de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK (Lunchtime)

Prime rate	10
Broker loan rate	9¼
Fed.funds	8¼
Fed.funds at intervention	8¼

Treasury Bills and Bonds

One month	7.45	Three year	8.07
Two month	7.45	Four year	8.08
Three month	7.81	Five year	8.10
Six month	7.93	Seven year	8.17
One year	7.87	10-year	8.20
Two year	8.04	30-year	[illegible]

Jan.16	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	7.65-7.75	8.00-8.15	7.95-8.10	8.05-8.25	8.30-8.45	8.00
Paris	10⅛-10¼	10⅞-11	-	11⅛-11¼	-	9.50
Zurich	8¾-9¼	9⅜-9⅞	-	9⅛-9⅜	-	-
Amsterdam	8.81-8.93	8.82-8.90	-	8.85-8.93	-	-
Tokyo	6 13/16-6 11/16	6⅝-6 11/16	-	6⅝-6 11/16	-	-
Milan	12⅞-12¼	13-13¼	-	12⅞-13⅜	-	-
Brussels	7.65	10⅛-10⅜	-	10½-10⅝	-	-
Dublin	11⅛-11¼	11 13/16-11 15/16	11⅞-12	11⅞-12	11 13/16-11 15/16	-

LONDON MONEY RATES

Jan 16	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	15¼	15⅛	15⅛	15⅜	15⅜	15⅛
Interbank Bid	14¼	14 15/16	15 1/16	15⅛	15 3/16	15
Sterling CDs	-	-	15⅛	15¼	15 5/16	14 15/16
Local Authority Deps.	15	15 1/16	15 1/16	15⅛	15⅜	15
Local Authority Bonds	-	-	-	-	-	-
Discount Mkt Deps.	15	14⅞	14⅞	14⅞	-	-
Company Deposits	-	-	15⅛	15¼	15 5/16	15⅛
Finance House Deposits	-	-	15⅛	15¼	15⅜	15⅛
Treasury Bills (Buy)	-	-	14¾	14⅞	-	-
Bank Bills (Buy)	-	-	14 15/16	14 15/16	14⅞	-
Fine Trade Bills (Buy)	-	-	15 11/16	15 11/16	14⅞	-
Dollar CDs	-	-	8.20	8.17	8.17	8.17
SDR Linked Dep. Offer	-	-	9¼	9¼	9⅛	8 15/16
SDR Linked Dep. Bid	-	-	8 15/16	8⅞	8 13/16	8 13/16
ECU Linked Dep. Offer	-	-	11⅛	11⅜	11⅜	11½
ECU Linked Dep. Bid	-	-	10 15/16	11¼	11¼	11⅜

Treasury Bills (sell), one-month 14 11/16 per cent, three months 14 15/16 per cent; Bank Bills (sell): one-month 14 13/16 per cent, three months 14⅝ per cent. Treasury Bills; Average tender rate of discount 14.5049 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day December,29 ,1989. Agreed rates for period January,24 1990 to February,25 , 1990, Scheme I: 15.90 p.c., Schemes II & III: 16.38 p.c. Reference rate for period Dec.1,1989 to December,29 , 1989, Scheme IV&V: 15.164 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 15½ from January 1, 1990: Bank Deposit Rates for sums at seven days notice 4 per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 11½ per cent; one-three months 13 per cent; three-six months 13 per cent; six-nine months 13 per cent, nine-twelve months 13 per cent. Under £100,000 11½ per cent from Oct 9,1989. Deposits withdrawn for cash 5 per cent.

BASE LENDING RATES

	%
ABN Bank	15
Adam & Company	15
Allied Trust Bank	15
Allied Irish Bank	15
● Henry Ansbacher	15
Associates Cap Corp	14
Authority Bank	15
● B & C Merchant Bank	15
Bank of Baroda	15
Banco Bilbao Vizcaya	15
Bank Hapoalim	15
Bank Credit & Comm	15
Bank of Cyprus	15
Bank of Ireland	15
Bank of India	15
Bank of Scotland	15
Banque Belge Ltd	15
Barclays Bank	15
Benchmark Bank PLC	15
Brit Bk of Mid East	15
● Brown Shipley	15
CL Bank Nederland	15
● Charterhouse Bank	15
Citibank NA	15
City Merchants Bank	15
Clydesdale Bank	15
Comm. Bk. N. East	15
Co-operative Bank	*15
Coutts & Co	15
Cyprus Popular Bk	15
Dunbar Bank PLC	15
Duncan Lawrie	15
Equatorial Bank plc	15
Exeter Trust Ltd	15½
Financial & Gen. Bank	15
First National Bank Plc	16
● Robert Fleming & Co.	15
Robert Fraser & Ptrs.	15½
Girobank	15
● Guinness Mahon	15
HFC Bank plc	15
● Hambros Bank	15
Hampshire Trust Plc	15½
Heritable & Gen Inv Bnk	15
● Hill Samuel	§15
C. Hoare & Co.	15
Hongkong & Shangh	15
● Leopold Joseph & Sons	15
Lloyds Bank	15
Meghraj Bank Ltd	15
McDonnell Douglas Bnk	15
Midland Bank	15
Mount Banking	15
Nat Bk. of Kuwait	15
NatWestminster	15
Northern Bank Ltd	15
Norwich Gen. Trust	15
Nykredit Mortgage Bank	15½
PRIVATbanken Limited	15
Provincial Bank PLC	16
Roxburghe G'rantee	15½
Royal Bk of Scotland	15
Royal Trust Bank	15
● Smith & Williamson Secs.	15
Standard Chartered	15
TSB	15
● United Bk of Kuwait	15
United Mizrahi Bank	15
Unity Trust Bank Plc	15
Western Trust	15
Westpac Bank Corp.	15
Whiteaway Laidlaw	15
Yorkshire Bank	15

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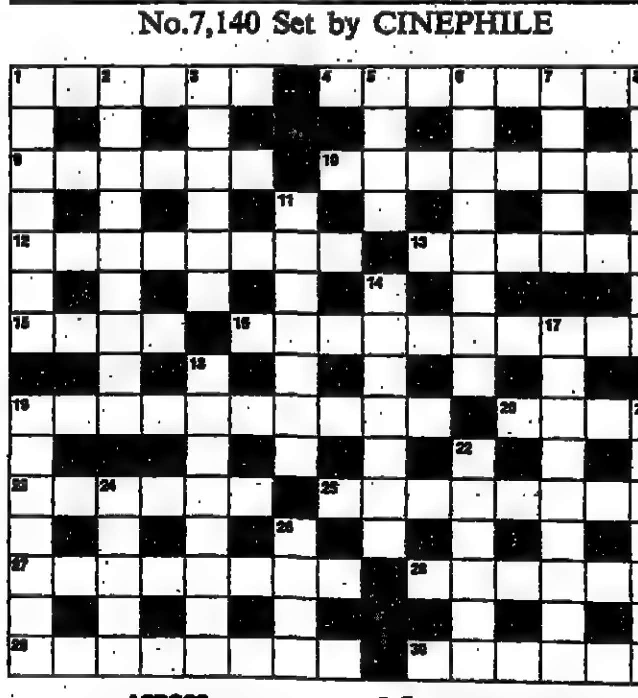
JOTTER PAD

CROSSWORD

No.7,140 Set by CINEPHILE



ACROSS

1 Delivery note saying what to do if tail's too long? (6)
4 Oriental politician has one's accent (8)
9 Pillar of the press? (6)
10 Dismal district where decisions are difficult? (4,4)
12 Frame for sleeper reaches county on wrong date (8)
13 Still dead? (2,4)
15 Desire to be extended (4)
16 What comes down is old, including bill on bird (10)
19 What goes up from prison camp, something very small (10)
20 Major work brought back in ..... (4)
23 ..... cooking instructions developed outside the city (6)
25 Back room work for cars here (8)
27 Walk haltingly to no avail in transparent manner (8)
28 Knock-out takes very little time – note for dragon (6)
29 Talk about ultra-revolutionary being good for one? (8)
30 Give credit to deity at crucial stage (6)

DOWN

1 Bed lice make a bit of noise (7)
2 One enticed among people of intelligence in Scotland (9)
3 Feeling for time, maybe – New York time? (6)
5 Currency note? (4)
6 A king's yacht provides cover for needles (9)
7 Russian cloth? (5)
8 Country house with outlet to west coast town (7)
11 Jazzy combination of debased and singular newspapers (3-4)
14 Butter up or more level? (7)
17 Masterful monarch among the ungodly (9)
18 Perversion isn't necessary for make-up (3-5)
19 Cast puri among Latin swine – it's over! (7)
21 Most of motor horn's sounds in collusion (7)
22 Another way to be routed? (6)
24 Beast arrived and left (5)
26 Aspersion on score? (4)

Solution to Puzzle No.7,139

WORLD STOCK MARKETS

AUSTRIA — FRANCE (continued) — GERMANY (continued) — ITALY (continued) — SWEDEN — BELGIUM/LUXEMBOURG — NETHERLANDS — SWITZERLAND — DENMARK — NORWAY — SPAIN — SOUTH AFRICA — FINLAND — GERMANY — ITALY — FRANCE — JAPAN — AUSTRALIA (continued) — HONG KONG — AUSTRALIA — MALAYSIA — SINGAPORE

CANADA

TORONTO
4pm prices January 16

MONTREAL
4pm prices January 16

INDICES

NEW YORK DOW JONES

	Jan 16	Jan 15	Jan 12	Jan 11	1989/90 HIGH	1989/90 LOW	Since compilation HIGH	Since compilation LOW
♦Industrials	2692.62	2669.37	2689.21	2760.67	2810.15 (2/1/90)	2144.64 (3/1/89)	2810.15 (2/1/90)	41.22 (2/7/32)
Home Bonds	92.49	92.63	92.74	92.84	94.15 (2/8/89)	87.35 (23/3/89)	—	—
Transport	1156.47	1135.14	1140.65	1165.72	1532.01 (5/9/89)	959.95 (3/1/89)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	221.52	220.13	220.70	225.67	236.23 (2/1/90)	181.84 (24/2/89)	236.23 (2/1/90)	10.50 (8/4/32)

♦Day's High 2698.38 (2692.41) Low 2634.17 (2666.17)

STANDARD AND POOR'S

	Jan 16	Jan 15	Jan 12	Jan 11	1989/90 HIGH	1989/90 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	340.75	337.00	339.93	348.53	359.80 (9/10/89)	275.31 (3/1/89)	359.80 (9/10/89)	4.40 (1/6/32)
Industrials	391.63	387.45	390.72	400.57	411.20 (2/1/90)	318.66 (3/1/89)	411.20 (2/1/90)	3.62 [illegible]
Financial	29.88	29.68	30.04	30.75	35.24 (9/10/89)	24.30 (3/1/89)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	188.37	186.71	188.32	192.78	199.34 (9/10/89)	154.98 (3/1/89)	199.34 (9/10/89)	4.46 (28/4/42)
Amex Mkt. Value	368.41	368.58	372.23	379.35	397.03 (10/10/89)	305.24 (3/1/89)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	440.16	436.64	439.72	448.86	485.73 (9/10/89)	378.56 (3/1/89)	485.73 (9/10/89)	54.87 (31/10/72)

	Jan 12	Jan 5	Dec 29	year ago (approx.)
Dow Industrial Div. Yield	3.96	3.84	3.87	3.60

	Jan 10	Jan 3	Dec 27	year ago (approx.)
S & P Industrial div. yield	2.94	2.86	2.95	3.21
S & P Indl. P/E ratio	14.80	15.19	14.74	13.23

NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Closing price	Change on day
Philip Morris	3,954,900	39⅛	+ 1⅛
Citicorp	3,276,600	26	− ⅛
Aristech Chem	3,131,100	24⅛	+ 5⅛
Rorer Gp	2,613,300	62⅛	− ⅛
Am T & T	2,353,800	43⅛	+ ⅛
Waste Man	2,144,600	33	+ 1
IBM	2,054,900	100⅛	+ 2⅛
Gen Electric	1,896,100	63⅛	+ ⅛
Merck	1,853,500	73⅛	− ⅛
Union Carbide	1,442,300	22⅛	+ ⅛

TRADING ACTIVITY

† Volume (Millions)	Jan 16	Jan 15	Jan 12
New York	186.070	140.590	183.880
Amex	14.036	11.038	17.278
NASDAQ	(u)	108.055	143.504
Issues Traded	1,965	1,945	1,989
Rises	793	396	203
Falls	709	1,086	1,486
Unchanged	463	463	300
New Highs	7	9	20
New Lows	90	71	60

CANADA TORONTO

	Jan 16	Jan 15	Jan 12	Jan 11	1989/90 HIGH	1989/90 LOW
Metals & Minerals	3220.74	3242.03	3261.01	3340.48	3919.2 (1/9/89)	3207.5 (3/1/89)
Composite	3899.98	3894.01	3881.84	3941.70	4037.8 (6/10/89)	3350.5 (6/1/89)
MONTREAL Portfolio	1974.08	1963.27	1961.92	1994.01	2069.69 (10/10/89)	1677.48 (3/1/89)

Base values of all indices are 100 except NYSE All Common—50; Standard and Poor's—10; and Toronto Composite and Metals—1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds.‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

AUSTRALIA — AUSTRIA — BELGIUM — DENMARK — FINLAND — FRANCE — GERMANY — HONG KONG — IRELAND — ITALY — JAPAN — MALAYSIA — NETHERLANDS — NORWAY — PHILIPPINES — SINGAPORE — SOUTH AFRICA — SOUTH KOREA — SPAIN — SWEDEN

	Jan 16	Jan 15	Jan 12	Jan 11	1989/90 HIGH	1989/90 LOW
SWITZERLAND Swiss Bank Ind. (31/12/58)	763.3	776.0	783.6	787.2	829.1 (6/9/89)	613.1 (3/1/89)
TAIWAN** Weighted Price (30/6/66)	10904.90	10867.64	10588.56	10134.97	10904.90 (16/1/90)	4873.01 (5/1/89)
THAILAND Bangkok SET (30/4/75)	877.68	894.20	897.31	888.72	918.67 (5/1/90)	386.73 (2/1/89)
WORLD M.S. Capital Intl. (1/1/70)	(u)	551.0	554.3	561.6	571.0 (4/1/90)	487.6 (13/6/89)

**Saturday Jan. 13: Taiwan Weighted Price: 10559.20 Korea Comp Ex. 893.47
♦ Subject to official recalculation.
Base values of all Indices are 100 except: Brussels SE, ISEQ Overall and DAX – 1,000, JSE Gold – 255.7, JSE Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks
Tuesday January 16 1990

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Maeda Constr	10.2m	1,830	-40	Marubeni	5.8m	1,030	-60
Nippon Mining	7.7m	1,070	-20	Sanyo Elctrc	5.4m	980	-30
Sumitomo Mt	7.2m	796	-28	Sharp	5.3m	1,780	-90
Mitsui	6.5m	1,220	-80	Kobe Steel	5.3m	738	-23
Nippon Steel	6.4m	744	-14	Kawasaki Steel	4.7m	770	-10

NOTES – Prices on this page are as quoted on the individual exchanges and are last traded prices.

4pm prices January 16

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A – A – A –								
37½	24¾	AAR	.48	1.5	19	341	32⅝	32⅛	32⅛	−1⅛
9⅜	8½	ACM n	1.01	11.		409	9½	9¼	9½	+ ¼
11⅞	10½	ACMIn	1.26	11		453	11⅜	11¼	11¼	− ⅛
9⅞	8	ACM M	A1.01	11.		438	9⅛	8⅞	9⅛	+ ⅛
11½	10	ACM Se	1.26	11		1332	11⅜	11⅛	11⅜	+ ⅛
9⅜	8¾	ACMSp	1.01	11.		765	9⅛	9⅛	9¼	− ⅛
19⅜	11½	AL Lab	.16	.9	18	171	18¼	17⅝	17¾	− ⅜
4⅛	3⅛	AMCA	.12e	3.3	9	3	3⅝	3½	3⅝	+ ⅛
6⅛	3⅞	AM Intl			8	774	4	3⅞	3⅞	
23½	18⅝	AM In pf	2	11.		30	18¾	18½	18⅝	− ¼
107¾	52⅝	AMR			7	8279	57¾	54⅛	57¼	+2⅜
27	25	ANR pf	2.67	10.		10	26	26	26	
24⅞	23⅛	ANR pf	2.12	8.8		1	24	24	24	
6	3¼	ARX				191	3½	3¼	3½	+ ¼
63	38⅛	ASA	3a	4.9		1670	62¼	61⅛	61¼	−1⅛
35⅛	16¼	AVX	.24	.7	32	3251	33	31⅞	32⅞	
70⅞	46¼	AbtLab	1.40	2.1	17	3174	66⅝	65¼	66⅝	+ ⅞
13¼	11¼	Abitibl g	.50			54	11⅝	11⅜	11⅝	+ ¼
13	9¼	AcmeC	.40	3.7	14	49	10⅞	10⅜	10⅞	+ ⅛
9⅛	6	AcmeE	.32	3.6	12	63	9	8⅞	9	
38½	22	Acuson			20	989	30¼	29⅛	30½	+ ½
16⅛	12⅞	AdaEx	2.06e	13.		187	15⅝	15½	15⅝	+ ⅛
15⅛	6¾	Adobe				249	12⅞	12⅝	12½	
20¼	16½	Adob pf	1.84	9.4		4	19½	19½	19½	
21⅝	19⅝	Adob pf	2.40	11		12	21¾	21¼	21¼	
10½	7⅛	AMD				4633	7⅞	7¼	7¾	+ ½
35	28½	AMD pf	3	10.		16	29½	29⅜	29⅜	− ¼
10⅛	6⅝	Advest	.16	2.3	10	118	7	6⅞	6⅞	− ⅛
62½	47⅝	AetnLf	2.76	5.1	9	3436	54⅞	53⅞	54⅛	− ⅝
14	10⅞	AfilPb	.24	2.2		507	10⅞	d10½	10⅞	− ⅛
25	16⅛	Ahmans	.88	5.0	9	4932	17½	17	17½	+ ¼
3⅞	2¼	Aileen				30	2½	2⅜	2⅜	
50¼	40	AirPrd	1.32	2.7	12	894	48½	47	48½	+ ⅞
39⅝	21½	AirbFrt	.60	1.7	18	77	36	35½	35⅞	− ⅛

Continued on Page 45

NYSE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
Continued from previous Page										
101½	78¾	RalsPur	1.66	2.0	13	1904	83½	82¾	83½	
6⅝	6¼	RangrO			29	250	6¼	6	6	
39¼	29¾	Raycm	.32	1.0	31	2361	31¾	31	31⅝	+ ¼
19⅛	10½	RJamF	.24	1.5	7	32	16	16	16	
21	18	Raymr	2.80	14.	6	64	20½	20⅜	20½	
3⅝	½	vjRaytc				12	2⅛	2⅛	2⅛	− ⅛
85	64⅞	Raythn	2.20	3.3	8	1702	65⅞	65⅛	65⅞	+ ⅛
5	15-16	RdgB n				112	2½	2⅜	2½	
17	14⅞	REIT	1.38	9.9	10	36	15¼	14⅞	15¼	+ ⅛
16⅛	13½	RltRef	1.72	12.	8	2	14⅞	14½	14½	
12⅜	6½	ReonEq				114	6½	6⅛	6⅜	+ ⅛
20	11⅛	Reebok	.30	1.7	14	4481	18	17⅜	18	
16	10⅜	Reece	.15e	1.5	49	29	10⅛	d 9⅝	9⅞	− ⅛
½	7-64	Regal				49	5-16	9-32	5-16	+1-16
9¼	6¼	RegIFn	.29e	3.5		916	8½	8¼	8⅜	
8⅝	4⅞	RelGrp	.32	5.6		4153	6⅞	5⅝	5⅞	− ¼
24⅞	16¼	Repsol	n.35e	1.6		1054	22	21½	21⅝	− ⅜
5⅞	4⅞	RepGyp	.20	3.0	24	20	5⅞	5	5⅞	− ⅛
52⅜	42⅜	RepNY	1.28	2.6		651	49⅜	48½	48⅝	− ½
15⅛	2⅜	Rxene			2	993	3¼	2⅞	3⅛	+ ⅝
33⅞	21½	ReyRey	.80	3.8	8	61	21⅞	d21¼	21¼	− ⅝
62¾	49	ReyMt	1.80	3.3	6	3530	54½	52½	54¼	+ ⅜
19	17⅜	RhP pfA				16	18⅝	18⅝	18⅝	+ ⅛
9½	1⅞	RhnP wr				718	3⅝	3	3¼	
22	18⅝	RhnPl n				849	22	21⅞	21⅞	
41⅛	29½	RiteAid	.80	2.5	13	x920	32⅝	31½	31⅝	− ⅞
7-16	⅛	RvrOak				5	3-16	3-16	3-16	+1-32
12⅞	8⅞	Robtsn				101	11	10⅞	11	+ ⅛
22⅛	17	RochG	1.56	7.7	12	154	20½	20⅜	20⅜	
45¾	28⅝	RochTl	s1.48	4.1	16	589	36	35	35¾	+ ⅛
22⅛	18½	RckCtr	1.86	9.0	19	365	20⅞	20½	20⅞	+ ⅛
27⅛	19¾	Rockwl	.78	3.6	8	1873	22⅛	21⅝	22⅛	+ ⅝
7⅞	4⅞	RodRen				70	5½	5⅛	5½	
37½	31	RoHaas	1.20	3.5	11	196	34	33⅛	34	+ ⅜
37⅞	18⅞	Rohr			25	252	20⅛	20	20⅛	− ⅛
14⅛	9⅝	RollinE	.08	.6		1565	12⅞	12⅝	12⅞	
[illegible]										

AMEX COMPOSITE PRICES

4pm prices January 16

[illegible]

NASDAQ NATIONAL MARKET

2pm prices January 16

[illegible]

[illegible]

AMERICA

Dow makes convincing rebound in active trade

Wall Street

AFTER PLUNGING nearly 30 points during active morning trading, the Dow Jones Industrial Average rebounded to end with a substantial gain, *writes Janet Bush in New York.*

At 10.15 am, the Dow had been more than 26 points lower, but then a wave of stock index-related programme trading triggered selling of Standard & Poor's 500 futures and buying of S&P 500 stocks in the cash market.

The Dow had made very small gains by midsession, but it rose steadily during the afternoon session to close 23.25 higher at 2,692.62, on active volume of 186m shares. The Dow had lost 19.84 on Monday to 2,669.37, taking it down 5 per cent, or 140.78 points, from its all-time high of 2,810.15 set on January 2, the first trading day of the year.

The bounce-back yesterday suggested that, after a substantial downward correction, the market had at last found some technical support. The recovery, helped as it was by programme trading, came in spite of another steep fall in Tokyo, which was even larger than the Friday sell-off that had contributed to the 71.46-point fall in the Dow on that day.

The recovery in the US equity market also came in spite of weakness in the Treasury bond market, which had been closed on Monday for Martin Luther King's birthday, and a negative reaction in the junk bond market to Monday's news that Campeau's Federated Department Stores and Allied Stores had filed for Chapter 11 protection from creditors.

The yield on the Treasury's benchmark long bond rose to 8.25 per cent in late trading, its highest level since September.

Technical strength and bargain-hunting counterbalanced long-running concerns about a combination of slow economic growth and upward pressure on inflation, as well as worry about the potential fall-out from the bankruptcy filings in Mr Robert Campeau's retail empire. There was also some concern about political turmoil in the Soviet Union and in Eastern Europe.

Single-country, closed-end funds dropped sharply in early trading, but recovered some ground by the close. The Germany Fund fell $½ to $24 and the Austria Fund closed $½ lower at $24¼. In contrast, the Brazil Fund added $¾ to $16⅛.

There is a great deal of economic data for the equity market to digest this week, including today's release of the trade balance for November, which is expected to show a deficit of about $9bn compared with October's shortfall of $10.2bn. Also today, December industrial production and capacity usage figures are due, with December consumer prices expected tomorrow.

Among featured shares, Hilton Hotels at first fell $⅞ before recovering to close $⅛ higher at $78⅛, after the company reported net income in the fourth quarter of 55 cents a share, down from 73 cents a year earlier and below analysts' forecasts.

Georgia Gulf rose $1½ to $44 in a positive response to the company's recapitalisation plan, which the company values at $55 a share.

Merck fell $⅛ to $73⅛ on a report that the company had discontinued development of Prodiax, a treatment for complications of diabetes. Merck said that the drug would be phased out because its effectiveness had not been demonstrated.

In over-the-counter trading, Intel added $2 to $37½ after reporting fourth quarter net earnings of 64 cents a share compared with 46 cents a share a year ago.

Subaru of America, also in OTC trading, added $1 to $6⅛ after news that Fuji Heavy Industries, which has a 49.6 per cent stake already, had offered to buy the remaining shares for $6 each.

Canada

THERE WAS also a recovery in Toronto, where the composite index, which had been down more than 22 points early on, recovered to finish slightly higher in active trading.

The index closed up 5.97 at 3,899.98, but declines led advances by 365 to 271. Volume of 31.5m shares included a 1m block of Corona Corp A shares and a 2m block of Laidlaw Transportation B shares. Monday's volume had been 23.5m.

Campeau Corp rose 35 cents to C$2.75 in the aftermath of Monday's Chapter 11 filings by its US retail units. As expected, the company named Mr William Miller as chairman and chief executive of Campeau's Federated unit.

ASIA PACIFIC

Tokyo nose-dives again as volume shrinks

Tokyo

JAPANESE equities went into another tailspin yesterday as investors returned from the long weekend to find no let-up in the weakness of bond prices and the yen, *writes Michiyo Nakamoto in Tokyo.*

In very thin volume, the Nikkei average dropped below the 37,000 level for the first time in a month and a half, to close with its sixth biggest single-day fall of 666.41 to 36,850.36, a loss of 1.8 per cent. Taken with last Friday's 653-point plunge, the Nikkei has fallen 3.5 per cent in two days.

However, the index closed yesterday well above its lows, having fallen by more than 850 points to 36,657.97. The high was 37,469.41. There were 982 declines against only 63 advances, with 80 non-movers.

Turnover was closer to normal half-day trading levels at a mere 438m shares, much lower than Friday's 602m. The Topix index of all listed shares dropped a hefty 62.59 points, or 2.2 per cent, to 2,723.88; in London, the ISE/Nikkei 50 index was 13.94 down at 2,021.12.

The external environment for equities appeared to be taking a turn for the worse. The dollar rose to touch Y146 for the first time in four months, putting further pressure on the bond market. The recent volatility on the bond market has led the Government to cancel the issue this week of two-year government bonds.

Furthermore, the sharp rise in US producer prices for December dashed hopes of lower US interest rates in the immediate future, while weakness on overseas markets added to the negative mood.

Analysts pointed to growing expectations among investors of higher interest rates in Japan. Mr Marshall Gittler at UBS Phillips & Drew pointed out that weakness in the bond market indicated that investors had realised that the Bank of Japan was committed to keeping short-term rates up and to correcting the inverted yield curve, which would entail a rise in long-term rates.

There are also signs that West Germany may want to raise its official rates in the near future, a move that would erase the advantage gained by lifting rates in Japan. It was likely, then, that there would be another rise in Japan's Official Discount Rate after the election, according to Mr Stephen Church at P&D, so that "the outlook for the first quarter looks rather poor."

Longer term, however, it was generally agreed that the fall in stocks was no more than a necessary correction. "It's been a good blow-out that is going to make the market look bright and healthy," said one broker at a foreign firm. The substantial losses suffered so far this year had only brought the market back to the levels reached before the rally at the end of last year. Japanese institutions still had huge amounts of cash waiting to come into the market at some point. Investors were on the sidelines, rather than selling, and this explained recent low volume.

Yesterday's losses were widespread and affected issues ranging from smaller capitalised companies, such as Maeda Construction, which topped the actives list with 10.2m shares and lost Y40 to Y1,830, to larger capital issues, such as Sumitomo Metal Industries, third in volume with 7.2m shares and down Y26 at Y796.

Nippon Mining, second in volume with 7.7m shares traded, dropped Y20 to Y1,070.

Among issues that had risen on expectations of increased trade with the Soviet Union, a prospect that could be threatened by the unrest in that country, trading companies suffered losses, with Marubeni down Y50 at Y1,030 and Mitsui Y80 weaker at Y1,220.

In Osaka, which had climbed 102 points on Friday, the OSE average plummeted 990.14 points, or 2.5 per cent, to 37,973.29, its fourth largest fall ever. Volume was extremely thin at 27.1m shares, less than half Friday's sluggish 61.7m.

Roundup

REGIONAL MARKETS were mostly unsettled by Tokyo's second plunge, but showed signs of underlying support.

AUSTRALIA was saved by the strength of the gold price and by overseas demand for leading resources issues, so the All Ordinaries index ended only 6.3 lower at 1,675.4. Volume was a modest 83m shares worth A$187m, against 83m and A$145m.

Western Mining rose 10 cents to A$6.60, while Placer Pacific added 6 cents to A$3.49. Industrials took the brunt of the selling, News Corp falling 45 cents to A$13.50.

Elders IXL, which appeared on the point of acquiring full control of 5,000 UK Courage pubs, rose 4 cents to A$2.30.

SINGAPORE fell for a second day, but the pace decelerated. The Straits Times industrial index ended 13.04 points, or 0.9 per cent, lower at 1,512.50, after Monday's 2.2 per cent drop.

HONG KONG slid in another day of thin trading, the Hang Seng index falling 34.90, or 1.3 per cent, to 2,751.79, after a 1.7 per cent decline on Monday. Turnover was HK$635m, up from Monday's HK$541m.

SEOUL closed barely changed after sharply rising energy stocks reversed earlier falls elsewhere.

The composite index was up 0.39 at 883.43, with energy issues driven by news that Korea Petroleum Development was to drill for oil off the southern island of Cheju.

SOUTH AFRICA

ACTIVE TRADING left Johannesburg gold shares mixed yesterday. Nervousness about Wall Street offset earlier gains, which had been fostered by optimism about the bullion price.

Vaal Reefs lost R2 to R445 and Kloof lost 75 cents to R45.50, while Freegold gained R1.25 to R56.25.

Gold Fields of South Africa edged up R1 to R109. The company announced a first half profit rise, but warned of a potential fall in earnings.

West Germany eclipses sad UK

William Cochrane analyses last year's European turnover figures

THE OUTSTANDING feature in European stock exchange volume last year was the virtual doubling of throughput in West Germany. This brought it to nearly twice the size of a sad UK market which ended, in December, nearly a third below its January 1989 level.

Much of last year's West German growth came in December alone. It was born of history in the making, as the barriers between Eastern Europe and the West were torn down. Japanese, British and American investors were faced with an economically strong, fundamentally cheap market, hosting a once-in-a-lifetime political opportunity.

As Germany waited, other markets had their day in the sun: the French closed 1988 and entered last year in buoyant form, with strong economic forecasts followed by the speculation and corporate activity which characterised the bourse last year; Spain had a good April and May, reflecting the strength of share prices; and Italy, from June to August, was intent on giving the lie to the notion that Latin countries go to sleep for the summer.

There is a body of opinion which says that Madrid and Milan perform in tandem; in other words, that investors should be in one when they are out of the other. It may have had a following in the spring and summer of last year.

In autumn, a surge for Belgium, France and the Netherlands continued in October, which took in the aftermath of the Friday, October 13, mini-crash on Wall Street. Mr James Cornish of County NatWest observes that the mid-October selling (and reciprocal buying) led to peak daily volumes in a number of European capitals.

In Germany's case, the selling by speculators made room for serious international investors, as reunification fever took hold in November. At the end of that month, the terrorist murder of Mr Alfred Herrhausen, chief executive of Deutsche Bank, seemed to shock the market into recognising its fundamental strengths, enhanced by the run of political miracles in Eastern Europe.

The UK, meanwhile, was in sad case; apart from the domestic gloom, the performance of sterling had been no incentive to foreign investors. The only bright spot was that, as domestic business subsided, international equities business in London rose from £22bn in October to £26bn in November. It held its ground in December, and could overtake the domestic market in size if trends persist.

EUROPEAN VOLUME FIGURES

Monthly total in local currencies (bn)

Bourse	Jan '89	Feb '89	Mar '89	Apr '89	May '89	Jun '89	Jul '89	Aug '89	Sep '89	Oct '89	Nov '89	Dec '89
Belgium BFr bn	72.4	69.3	56.6	58.6	62.0	72.0	60.0	82.0	85.1	90.2	70.0	59.7
France FFr bn	104.0	92.0	66.0	74.0	72.0	100.0	78.0	102.0	145.8	174.8	106.8	131.7
Germany DM bn	88.2	61.5	63.9	82.5	78.0	132.0	115.6	115.5	104.5	104.6	110.9	157.1
Italy L bn	17,266	16,506	13,843	13,926	14,080	24,000	24,584	27,080	21,766	20,013	13,256	13,540
Netherlands Fl bn	17.4	13.6	14.9	17.8	14.4	17.1	14.1	16.0	16.5	19.2	11.2	10.8
Spain Pta bn	507.8	345.0	358.9	515.8	616.5	522.6	400.4	578.8	605.0	622.2	418.5	443.4
Switz SFr bn	13.7	12.9	21.5	23.7	20.5	26.0	26.8	20.1	17.0	17.3	13.8	15.4
UK £ bn	39.7	35.5	32.4	30.5	33.8	36.0	36.0	35.1	32.5	32.2	26.2	27.1

Volumes represent purchases and sales. Swiss and Belgian data estimated. Italian data adjusted to include off-market trading. Some figures may be revised.

Source: County NatWest WoodMac

EUROPE

Soviet unrest blamed for setback

STUDENTS of the end game in world politics were saying yesterday that the revolutionary forces unleashed by the Soviet leader, Mr Mikhail Gorbachev, might lead to his downfall; some stock market observers were also pointing to an absence of foreign buyers, and the malaise in Tokyo, *writes Our Markets Staff.*

FRANKFURT acknowledged the domestic problems of Japanese investors, who have been so important in Germany's 25 per cent rise since early November, but preferred to shift most of the blame on to Soviet shoulders as the DAX index dropped 52.93, or 2.9 per cent, yesterday to 1,788.68.

West German shares traded in Tokyo had already been marked down, and the DAX lost about 20 points in the first 15 minutes of trading. However, the Soviet unrest added to that, initially with a 13.74 (1.8 per cent) drop in the FAZ index at midsession to 755.76.

Volume eased from DM9.4bn to DM9.3bn. The absence of foreign buyers was reflected in prices for the front-line international blue chips, Daimler falling DM25 to DM849, Deutsche Bank DM24 to DM817, and Siemens DM19.40 to DM711.10.

Business news of the day was that four foreign creditor banks have decided not to exercise their rights to acquire stock in the financially troubled Co op retailer, leaving DG Bank and BHF-Bank holding the bulk of Co op's shares. BHF-Bank fell DM14 to DM445.

PARIS managed a partial recovery from its worst levels to end 1.4 per cent down on relief that Wall Street had not fallen further than it did in early trading.

The CAC 40 index closed 27.68 weaker at 1,935.21, having fallen as low as 1,914.78. Some blue chip international favourites showed substantial losses, indicating that foreigners may have been selling, but there was also some bargain-hunting from investors who have been bearish about the market and are thus sitting on cash.

Turnover was thought to be a moderate FFr3bn, after FFr2.3bn.

"The market has shown very good resistance today and yesterday," said an analyst. "A lot of people must be looking for buying opportunities."

He believed there were several reasons to be more optimistic about prices: the market has already fallen 3.5 per cent from its early January highs; the troubles in the Soviet Union are at least partially discounted; and the fundamentals, such as yesterday's steady inflation figures for December and a firmer French franc, are looking healthier.

DMC, the textiles group, stood out with a jump of FFr33, or 5.5 per cent, to FFr630 on takeover speculation; it has been suggested that Chargeurs, the holding group which has just sold a majority stake in the UTA airline to Air France, may use the cash to strengthen its textile interests.

AMSTERDAM closed nearly 2 per cent lower in active volume. A weak bond market and fears of another rise in West German interest rates left the CBS tendency index 2.2 points weaker at 113.4, above its lows.

In the absence of positive news, the market focused on takeover prospects and underperformers. Van Ommeren Ceteco fitted the bill on both counts, and rose Fl 1.80 to Fl 38.30.

Kooijman, the broking firm, returned from suspension following the Fl 30 a share bid from Suez of France and jumped Fl 8 to Fl 29.

In the banking sector, Amro fell Fl 2.10 to Fl 75.40 after saying it lost about Fl 190m on its investment in Co op, the West German retailer.

ZURICH adopted Frankfurt's Sino-Soviet concerns, but added that foreign selling on the day included a particularly strong contribution from West Germany itself. The Crédit Suisse index fell 10.5, or 1.7 per cent, to 611.6.

Chemicals came under selling pressure. While the big Swiss companies in this sector put out favourable reports on 1989 turnover increases last week, European studies have suggested that the industry is approaching a slowdown. The sector averaged losses of almost 2.5 per cent as certificates of Roche and Ciba-Geigy fell SFr95 and SFr90 to SFr3,610 and SFr2,705 respectively.

MILAN saw early gains wiped out by consideration of the pattern elsewhere in Europe, and the Comit index closed 6.37 lower at 695.66.

The hardest hit sectors were those which had advanced the most since the beginning of the year: banking, telecommunications and insurance. However, Banco Ambroveneto, product of the merger between Nuovo Banco Ambrosiano and Banca Cattolica del Veneto, and now officially listed, almost beat the trend as it closed only L28 lower at L5,100.

MADRID showed few signs of resilience, the general index dropping sharply for a second day to end 3.67 lower at 287.29. The 290 level had been seen as an important support level.

BRUSSELS retreated further, although share price declines reflected an absence of buyers rather than heavy selling. The market ended above its lows, as Wall Street appeared to stabilise. The cash market index fell 39.49 to 6,489.81.

Declines included a fall of BFr490, or 5 per cent, to BFr9,310 for the travel group, Wagons-Lits, and a loss of BFr575 to BFr19,075 for the chemicals company, UCB.

STOCKHOLM fell sharply again, in response to declines in Tokyo and Wall Street and amid growing nervousness about prospects for Eastern Europe. The Affärsvärlden General index lost 17.3 points, or 1.3 per cent, to 1,278.0. Turnover was SKr331m.

Esselte, the office supplies and media company, defied the trend, rising SKr2 to SKr212 in active trading on rumours of a takeover bid.

Banking lost least ground, following Monday's news that the Government would allow foreigners to buy Swedish banks and financial firms. SE-Banken was unchanged at SKr87.50 and Handelsbanken was also steady at SKr121. Forestry fell furthest, amid fears of a steep fall in pulp prices. MoDo free B shares fell SKr10 to SKr320 and SCA free Bs lost SKr4 to SKr120.

OSLO declined on lower North Sea oil prices and worries about Soviet unrest. The all-share index fell 7.63, or 1.4 per cent, to 554.36.

HELSINKI fell in spite of the expected incomes policy agreement, as rising interest rates blackened the mood. The Unitas all-share index lost 3.8 to 627.3 in low volume of FM68m.

COPENHAGEN saw interest in the banking sector, which was a laggard last week. Privatbanken, Den Danske Bank and Handelsbanken all gained DKr2 to DKr299, DKr362 and DKr286 respectively.

VIENNA eased as profit-taking continued after last week's records, with the bourse index losing 10.07, or 1.7 per cent, to 579.29. Trading was busy and the session was extended by 15 minutes to cope.

FT-ACTUARIES WORLD INDICES

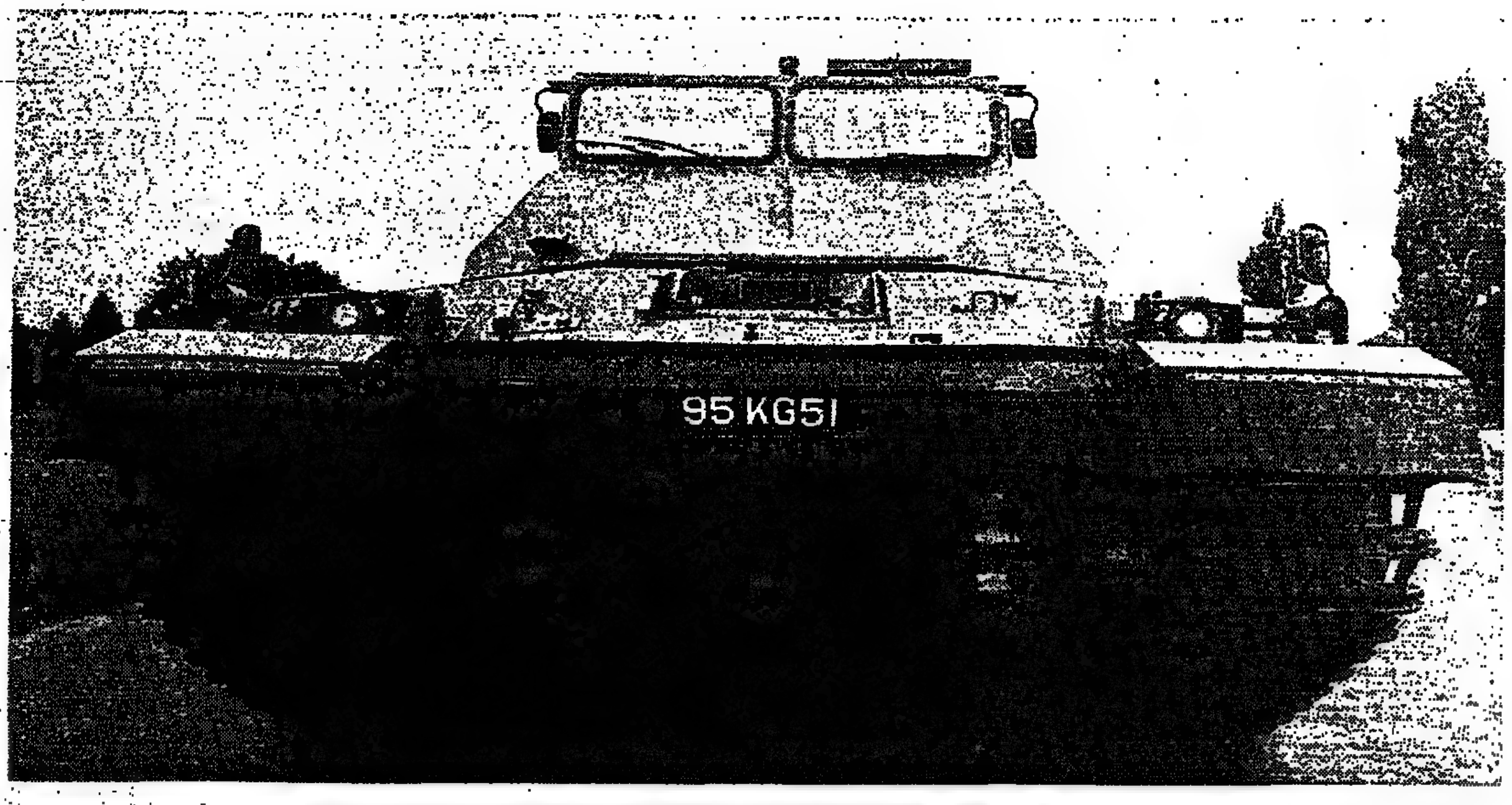
Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	TUESDAY JANUARY 16 1990						MONDAY JANUARY 15 1990			DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Day's change % local currency	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index	1989/90 High	1989/90 Low	Year ago (approx)
Australia (84)	153.89	−0.9	137.77	129.73	−0.4	5.26	155.25	138.41	130.21	160.41	128.28	148.16
Austria (19)	208.15	−1.8	186.35	183.95	−1.2	1.32	211.95	188.96	186.13	219.85	92.84	93.09
Belgium (61)	155.77	−1.1	139.46	136.37	−0.8	4.10	157.53	140.44	137.52	160.02	125.58	133.22
Canada (120)	149.02	+0.0	133.42	125.68	+0.2	3.18	148.96	132.80	125.40	154.17	124.67	130.24
Denmark (36)	248.09	+0.2	222.11	221.09	+0.3	1.43	247.66	220.79	220.54	250.34	165.35	156.66
Finland (26)	139.65	−0.9	125.02	117.38	−0.3	2.66	140.85	125.57	117.74	159.16	118.63	126.63
France (125)	151.79	−1.4	135.89	137.20	−1.3	2.75	153.90	137.20	138.99	157.97	112.57	115.27
West Germany (96)	126.00	−1.5	112.81	111.00	−1.6	1.89	127.96	114.08	112.82	130.32	79.56	84.48
Hong Kong (48)	113.13	−1.1	101.28	113.42	−1.1	5.03	114.44	102.03	114.73	140.33	86.41	119.87
Ireland (17)	191.49	−0.9	171.43	173.01	−0.7	2.51	193.24	172.27	174.32	198.69	125.00	128.98
Italy (96)	99.73	−1.0	89.28	94.03	−0.8	2.43	100.70	89.78	94.80	102.11	74.97	85.40
Japan (455)	183.33	−2.3	164.13	168.55	−2.3	0.48	187.59	167.23	172.55	200.11	164.22	194.94
Malaysia (36)	227.19	−0.8	203.40	236.64	−0.6	2.26	229.13	204.27	238.08	238.21	143.35	150.77
Mexico (13)	326.90	+0.1	292.67	963.23	+0.1	0.54	326.43	291.01	961.84	337.02	153.32	163.86
Netherland (43)	136.23	−1.7	121.96	118.79	−1.5	4.54	138.53	123.50	120.60	145.66	110.65	112.00
New Zealand (18)	73.45	−0.4	65.76	63.98	−0.4	5.61	73.74	65.74	64.24	88.18	62.64	69.70
Norway (24)	210.98	−1.8	188.89	187.00	−1.5	1.46	214.83	191.52	189.90	219.26	139.92	154.20
Singapore (26)	183.27	−1.1	164.08	159.84	−0.9	1.82	185.27	165.17	161.23	189.64	124.57	134.66
South Africa (60)	229.41	+0.7	205.38	167.70	+0.4	3.38	227.80	203.08	167.09	229.41	115.35	119.24
Spain (43)	155.30	−2.1	139.04	129.12	−2.1	4.10	158.70	141.48	131.95	169.75	143.14	149.00
Sweden (35)	198.50	−1.8	177.71	180.72	−1.5	1.90	202.05	180.13	183.50	206.95	138.45	146.01
Switzerland (62)	95.12	−1.9	85.16	89.40	−1.6	2.00	96.92	86.41	90.85	99.12	67.81	76.93
United Kingdom (306)	158.69	−1.1	142.07	142.07	−0.7	4.44	160.50	143.09	143.09	164.31	133.28	137.69
USA (542)	137.92	+1.1	123.48	137.92	+1.1	3.40	136.41	121.61	136.41	146.29	112.13	115.44
Europe (989)	142.11	−1.3	127.23	126.54	−1.1	3.37	144.02	128.40	127.97	146.66	112.63	114.69
Nordic (121)	193.49	−1.0	173.23	167.16	−0.8	1.71	195.38	174.18	168.45	198.12	137.95	141.51
Pacific Basin (667)	179.65	−2.2	160.84	164.98	−2.2	0.74	183.67	163.75	168.70	194.72	160.44	189.85
Euro−Pacific (1656)	164.84	−1.9	147.58	149.69	−1.8	1.86	168.01	149.79	152.47	174.18	141.56	169.74
North America (662)	138.48	+1.0	123.98	137.16	+1.0	3.38	137.06	122.19	135.73	146.66	112.79	116.24
Europe Ex. UK (683)	130.68	−1.5	117.00	116.95	−1.4	2.66	132.62	118.23	118.58	134.68	96.30	100.20
Pacific Ex. Japan (212)	135.32	−0.9	121.15	120.16	−0.6	4.81	136.60	121.78	120.92	140.05	111.93	128.99
World Ex. US (1849)	165.00	−1.8	147.72	149.33	−1.7	1.73	168.02	149.79	151.96	173.77	141.49	158.22
World Ex. UK (2085)	153.88	−0.9	137.76	145.78	−0.9	2.03	155.25	138.41	147.07	162.00	136.98	142.27
World Ex. So. Af. (2331)	153.83	−0.9	137.72	145.24	−0.9	2.24	155.26	138.42	146.52	161.84	136.67	141.99
World Ex. Japan (1936)	140.86	+0.0	126.10	133.67	+0.1	3.44	140.81	125.53	133.40	145.53	114.51	116.28
The World Index (2391)	154.29	−0.9	138.13	145.39	−0.9	2.25	155.70	138.81	146.66	162.05	136.68	141.85

SECTION III

FINANCIAL TIMES

SURVEY



Vickers' Challenger Training Tank. Prototypes of the Challenger 2, Vickers' candidate to replace out-of-date Chieftains for the British army, are due by September

DEFENCE

CONTENTS

Editorial production: Khozem Merchant
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Defence planning has been thrown wide open by events in eastern Europe. Political change and progress on disarmament will have a big psychological impact, calling military spending into question and clouding the future for arms producers. David White reports

A battle for economies

DEFENCE is in danger of becoming a dirty word. The perceived threat that has concentrated western military minds for 40 years, determined their weapons requirements and dictated a level of spending, in Nato alone, that would be sufficient to pay off in less than a year the whole of Latin America's international debt, is being conjured away.

The revolutions of eastern Europe, the thawing-out of the Cold War, cuts in the Soviet Union's military outlay, and the prospect of a treaty within the year cutting to equal levels the main non-nuclear weapons that could be used for an attack: all these factors provide the West with opportunities for rationalising its defence. This will also entail the need for more rationalisation of its rambling arms industries.

Defence is condemned to loss of favour in the allocation of taxpayers' money, probably throughout western Europe. Nato officials have come to accept the "inevitable diminution of defence budgets." The US has already seized the time to propose lopping off planned funding that Congress was probably not going to let the Pentagon have anyway. Between 1991 and 1994 this means up to $180bn less than previous plans led to expect.

Pressure from Europe's finance ministries to find corresponding cuts to assist other government programmes is mounting. "The Treasury is now the threat," one of Britain's top military chiefs commented recently, only half in jest.

Where the cuts will bite, and when, is still largely a matter of guesswork, however. The changes in the East have simply come too fast for the planners to keep up. It is only 13 months since President Mikhail Gorbachev told the United Nations of his plans for unilateral reductions, confounding the sceptics as to Moscow's seriousness about "defensive defence" and its willingness to sacrifice the means of mounting a surprise attack.

Détente is now rampant. Little more than a year ago, a friendly Soviet military visit – for instance, the first inspections of missile bases under the Intermediate Nuclear Forces Treaty – was a novelty. Now it is quite possible that countries like the UK and West Germany will start having the same kind of regular military staff meetings with the Soviets as they do among themselves.

As in the period after the First World War, it is no longer very clear who the enemy is. It is likely that by the end of this year, Moscow will have agreed to scrap most of its tanks west of the Ural Mountains, and quite possible, in spite of some still unresolved difficulties, that both superpowers will have agreed to halve their long-range nuclear arsenals.

The full implications of the changes for Nato and for Europe have not been fathomed. The US spending cuts, for instance, could involve some European countries taking more of the burden. Quite possibly, the conventional arms negotiations in Vienna will raise excessive expectations of savings, when on the Nato side the proposed cuts involve only between 5 per cent and 15 per cent of the treaty-limited weapons, and even then mostly old equipment.

Defence ministers argue for caution, wanting to ensure a controlled, negotiated disarmament process and trying to stave off "structural disarmament" through competitive cost-cutting. Their staffs are also reluctant to ditch policies and decisions which took years to produce. They are worried, too, about time needed for forward planning, especially for modern weapon systems, which cannot be run up overnight out of old saucepans if the need arises.

Up to now it has been the technology that has been changing, while the soldiering stayed much the same. Now, military concepts are also on the move.

Nato's current arms control proposals are designed to leave intact its principles of flexible response (keeping a range of options up to the use of strategic nuclear weapons) and forward defence (defending as far up to West Germany's eastern border as possible). But it will still need to adapt. Pressures against renewing the short-range nuclear weapons which are a key part of flexible response are likely to grow, and exercising by Nato armies in West Germany will become increasingly difficult in the political climate in that country.

If the Vienna process goes further than the cuts now being negotiated, Nato will have to change the way it conceives forward defence. It will also have to face insistent Soviet demands for naval arms control, which it is loath to contemplate on geographical grounds.

The UK is taking a noticeably more cautious line than the US. If a Conventional Forces in Europe treaty is signed this autumn, it wants a pause before further cuts are considered.

The arguments put forward for maintaining western defences are the outbreak of political instability and the prospect that, whatever happens to eastern Europe and the Soviet Union itself, Russia will remain a formidable military power. But the nature of the threat, a monolithic bloc reaching to Nato's doorstep, has definitely changed. Short-warning scenarios for massive Soviet attack are already being discounted.

The changes can be expected to mean fewer men on the ground, less emphasis on armoured units and fewer offensive weapons. But in some areas there will be increased spending, in surveillance, especially, and in defensive systems. Some areas of electronics will thrive, and there is still an arms race being waged in new technologies.

Industry is likely to face reduced demand for new weapon platforms on land and in the air. There will be an oversupply of new equipment, and export opportunities in the developing world risk being undermined by a big second-hand business. European producers competing in non-aligned countries face the threat of dumping by both the US and the Soviet Union. US manufacturers are also likely to be more aggressive in Europe.

Stock markets in the US have already shown their wariness about defence companies. The days when there were enough combat aircraft projects to have five companies designing and making them have gone.

The pressures on government spending are not new. US defence budgets, built up in the early Reagan years, have been on the ebb since the mid-1980s. A shake-up of the US defence industry is widely expected to follow on the one that is already well under way in Europe. This European process has mostly involved defence electronics but has recently moved into other areas and taken on an increasingly transnational character: for instance, British Aerospace's planned link with France's Thomson in guided weapons and GEC-Marconi's with Matra in space.

The prospect of lower armament levels presents a challenge to Europe and Nato as a whole. Smaller production needs will accentuate the wastage of duplicated efforts in systems such as tanks; in a less dense battlefield, Nato's handicap in fielding a range of incompatible equipment will also be more marked.

This could point to a division of labour between European Nato allies, both in military tasks and in industrial specialisations, or to pooling of resources.

Growing Anglo-French links would have crucial importance in this new European dimension. It is doubtless for mainly political reasons that the UK is giving fresh consideration to French proposals to co-operate on an air-launched nuclear missile – which would be the first ever collaboration of its kind – after virtually abandoning the idea in favour of a cheaper US route.

Both Britain and France have been plotting increases in their spending. In the UK plans are for a rise of £2bn over the next two years to more than £22bn. The Government has been anxious to ward off speculation about a full-scale Defence Review, the first since 1981, when it decided to cut back the navy, before the Falklands War made it have second thoughts. However, even with present funding provisions the Ministry of Defence will be in a tight squeeze, having to accommodate peak spending on the Trident submarine-launched nuclear deterrent and new programmes such as the European Fighter Aircraft. Now the pre-Falklands arguments about defence over-spending appear to be regaining influence.

Defence has fared relatively well in the competition for UK Government funds over the last decade. Treasury officials insist that it will now lose its priority.

The question marks are placed above all over the size and organisation of British forces in West Germany, which will be directly but not drastically affected by the equipment proposals now on the table in Vienna, and which are likely to have diminishing facilities for undertaking realistic training. Rumblings about cuts are already affecting morale and compounding the army's problem in retaining personnel.

The first big UK decision of the era after the breaching of the Berlin Wall could be the order for the army's new tank, due after Vickers has produced prototypes to compete for the contract in September. But some senior officials believe a further delay will be granted, and that the hard decisions will be put off.

Lionel Barber on US military spending cuts

The end of the feast

THE WOLVES are circling, complained Admiral William J Crowe, reacting to growing pressure in Washington for cuts in US defence spending.

A crusty Oklahoman who recently retired as the nation's top military officer, Admiral Crowe shares a common fear in the military establishment: the collapse of communism in eastern Europe has undermined the rationale for the $300bn annual US defence budget.

As 1989 drew to a close, the new catchphrase was "peace dividend" – the savings expected to be generated by cuts in military spending to be reallocated to pressing domestic concerns. Among the favourite causes are cutting the Federal budget deficit; using tax incentives to boost the national savings rate; improving education; rebuilding decaying infrastructure; and increasing money for "the war on drugs."

The first test of the new mood will come this month when Congressional hearings open on President George Bush's fiscal 1991 budget, but already there are straws in the wind.

In testimony last month to a Congressional committee, Mr Robert McNamara, US Defence Secretary in the Kennedy and Johnson administrations, said Pentagon spending could be safely cut in half by 2000 because of the reduced threat from the Soviet Union and eastern Europe. Other leading scholars agree, providing current peaceful trends continue.

Ten years ago, such assessments were unthinkable. In 1980, when President Ronald Reagan took office, the public mood was marked by doubt, fuelled by Soviet adventurism in the Third World and fears that the US was vulnerable to a Soviet nuclear strike. President Reagan, supported by Congress, ordered a $2,000 billion rearmament programme. American defence companies feasted.

The latest shift – some might say somersault – in political mood would appear to spell trouble for the defence sector. Top companies have seen their shares shot to pieces by panic selling. Others (Ford?) who diversified to take advantage of the 1980s defence glut are now having second thoughts. Meanwhile, Mr Donald Atwood, deputy secretary of defence and the Pentagon's top manager, warns of likely consolidation (a codeword for mergers and acquisitions) in the defence sector in the years ahead.

All this would be daunting enough, but there is an additional political threat to the military establishment: the Gramm-Rudman budget balancing law. Gramm-Rudman mandates the Bush administration to find at least $40bn in savings to meet next year's budget deficit target of $64bn. With President Bush showing no sign of modifying his 1988 election pledge not to raise taxes, Congress is likely to turn to spending cuts to hit the target. "Defence," says one top budget adviser, "could be a real victim this year."

The man charged with defending the Pentagon's patch is Mr Richard Cheney, US Defence Secretary and a youthful White House chief of staff under President Ford. Mr Cheney has already dropped hints that he is amenable to big cuts in planned Pentagon spending and reductions in US troops overseas.

His public statements may have unsettled some allies, notably Britain, but they were primarily intended for a domestic audience. In effect, Mr Cheney calculated that the only way to avoid a Congressional "chopping spree" was to talk cuts first – and shoot for a serious deal later.

Thus, the Pentagon has leaked proposals over the next five years to slash military personnel by 250,000 men and women; eliminate three active duty army divisions; ground five air force tactical wings; and withdraw 62 navy ships. Yet these are contingency plans only, aimed at correcting the unrealistic assumptions on Congressional funding inherited from the Reagan administration. In short, they are not real cuts, but "paper cuts".

Senator Sam Nunn, the Democrat who commands most influence on Capitol Hill on military matters, has spotted the Cheney charade and begun to set out his own priorities. Moreover, Mr Nunn has insisted that the Administration develop a strategy based not on short-term fiscal concerns but on the actual Soviet threat.

His specific proposal called for a revised US negotiating position at the Vienna conventional arms talks. Instead of the Administration's proposal to reduce its forces in Europe from the current 305,000 to 275,000, Mr Nunn says the US could afford to run down to between 200,000 and 250,000. The advantage: more savings in the defence budget and more pressure on the Soviets to withdraw their forces from the east European satellites.

At the same time, Mr Nunn says that the US needs to focus more on air power while cutting costly army troops based overseas. President Bush should also back a "partial gradual draw down" of American troops in South Korea and Japan, as well as pressure the European allies to shoulder more the burden of their own defence.

These then are the battlelines drawn up between the administration and Congress. Yet the antagonism should not be overstated because the real negotiating has yet to begin. Moreover defence – because its supplies jobs, bases and dollars to the legislators in their home districts – is more than just a question of national security. There are – and always will be – significant forces ensuring high defence spending in the US.

The more relevant questions are: can Mr Cheney and Mr Nunn work together to ensure that the adjustment from the helter-skelter Reagan rearmament programme is planned rather than piecemeal? Furthermore, can they break the habits of the past when both the Administration and Congress have postponed difficult choices on weapons systems (such as the MX and Midgetman land-based nuclear missile alternatives) for short-term political gains.

One of the problems with the American political system is that it likes to react by calendar, rather than by crisis. The strengths of checks and balances to executive and legislative power can appear like weaknesses when something more than inertia is required. Both Mr Nunn and Mr Cheney realise that reshaping the US military amounts not only to a new defence doctrine for the post-Cold War era abroad, but also to a perestroika at home.

EUROPE

Unequal shares

TWO forces have been pushing the pace of the East-West disarmament process – the Gorbachev effect with all its repercussions, and the US budget. The European Nato allies have been mesmerised by both.

West European defence ministers, faced with a sharp scaling down of US military spending plans, have tried to fend off the threat of emulative cost-cutting. At their last meeting in November, they were at pains to show the US as a unique case because of the legal constraints on the budget and the sheer size of the US defence bill.

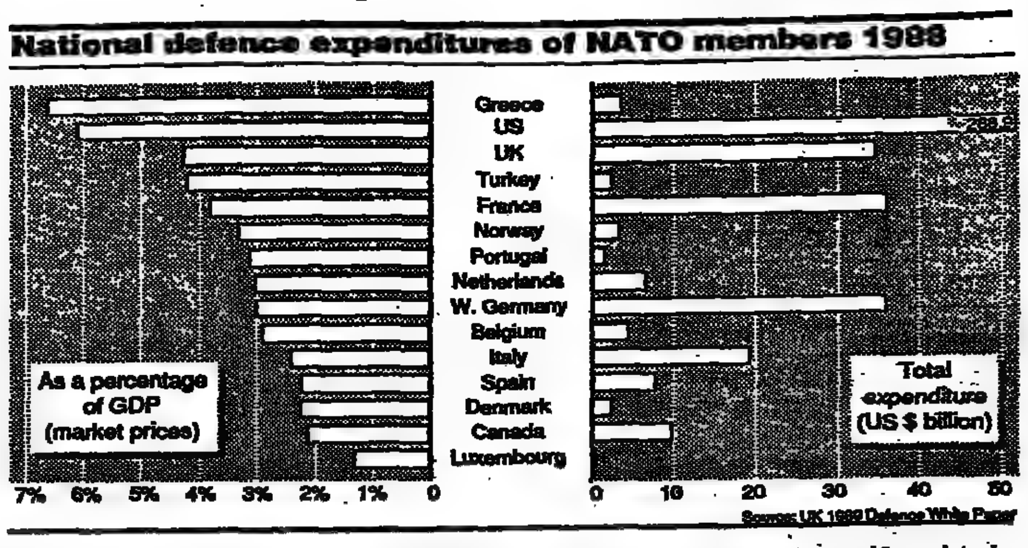
A year earlier, they had been mustering their answers to a US campaign on burden-sharing – the question of whether the Europeans are doing their bit. On the face of it, the relaxing of East-West tensions and the impending arms cuts should ease the friction over burden-sharing. But that is far from clear. If all countries reduce alike, the issue will not be resolved. And in the context of declining US concern about potential threats to European allies, it could get worse.

A sense of unfairness in the distribution of defence responsibilities continues to smoulder in US public opinion and in Congress, aimed at both Japan and western Europe.

Ill-feeling has been worst when Americans have felt let down by allies in their failure to lend moral or other support for US military operations – especially the raid on Libya in 1986. Again with the invasion of Panama last month, the UK was a notable exception among the allies in proclaiming immediate approval.

Squabbling about who should foot how much of the bill for Europe's defence has been going since the 1960s. Per head of population, only three allies – France, Britain and Norway – spent more than half of what the US was spending on defence in 1988.

National defence expenditures of NATO members 1988



Source: UK 1989 Defence White Paper

VSEL's 155mm howitzer which it hopes to sell to the US

Basing troops in Europe rather than at home is reckoned to add between 10 per cent and 15 per cent to the US defence bill. But up to 60 per cent of the current budget can be calculated as being in some way directly related to Europe. This figure – some $180bn – is more than the rest of Nato's defence budgets put together.

Although support for Nato remains strong in the US, public opinion polls consistently call for the Europeans to spend more. But there is no sign of them doing so.

European defence budgets, apart from modernisation phases among the poorer members, have been mostly flat. Nato maintains, officially, a goal of 3 per cent annual increases in real (inflation-adjusted) terms, but there is no prospect of achieving it alliance-wide.

West Germany's defence spending could be down in real terms this year. France has cut back on its plans for increased expenditure. Britain, after a period of flat or less than flat budgets, plans growth of £2bn over the next two financial years, to more than £22bn, but analysts warn that the forecast real-term increases – of 1.9 and 1.7 per cent – may be eaten up by inflation.

As for the smaller allies which came under the heaviest US criticism, Denmark has stuck with a zero-growth budget and Belgium is continuing to reduce its financial commitment in real terms, deciding to update its current tanks and fighters rather than join expensive new armament projects.

A Nato progress report on burden-sharing in November warned members against "reductions in commitments in anticipation of the future or to achieve short-term financial gain." It warned that the quality of the forces remaining after a Vienna conventional arms treaty would need to be "sustained and improved."

Interestingly, the clearest warning about expectations of defence savings came from Bonn. Mr Gerhard Stoltenberg, the West German Defence Minister, said it would be "a mistake" for Europe to draw the consequence from the US spending plans that all allies should cut back. After a Vienna treaty, he said, the Europeans would have to take a relatively bigger share of the burden.

The relaxing of East-West tensions and the impending arms cuts should ease the friction with the US over burden-sharing

The Europeans have argued that they provide 95 per cent of Nato's divisions in Europe, 90 per cent of its manpower and artillery, 80 per cent of its tanks and combat aircraft, 65 per cent of its major warships and a lot of intangible contributions.

But the 1988 burden-sharing report, Enhancing Alliance Collective Security, still found "glaring differences" between allies, and called on members both to provide more resources and make more efficient use of them. This would include better co-ordination and, in the longer-term, specialisation among allies.

Industrial specialisation would be one logical consequence of the more open market proposed by the Independent European Programme Group (IEPG), to which 13 European Nato countries belong, including France. But this has so far made very modest progress. By the end of 1989, all members were supposed to be publishing contract opportunities so that companies in other countries could bid for them. But apart from Britain and France, none were yet doing so.

France has meanwhile been leading the drive for a European defence research body modelled on the US example.

European and pan-Nato collaboration has taken something of a battering in recent months, with defections from a Nato frigate project, the break-up of a joint plan for conventionally-armed stand-off weapons for aircraft, problems over new air-to-air missiles to replace standard Nato weapons and Anglo-German disagreement in the European Fighter Aircraft project.

But the economic and political arguments for European defence collaboration would now seem to be stronger than ever, with the US clearly favouring any move that improves the efficiency of the European effort.

This would include support for nuclear weapon co-operation between Britain and France, which would be a significant new departure. President George Bush made clear in May last year that Washington "welcomed" Anglo-French moves in this area.

Co-operation on a stand-off nuclear missile, carrying different national warheads, has been under discussion for two years. The plan for a new air-launched nuclear weapon has since taken on extra importance, as prospects for a Nato agreement on new ground-launched nuclear missiles in Europe diminish. Unlike ground-based weapons, there are at present no proposals for disarmament talks covering missiles carried by aircraft.

The early stages involved trilateral talks between the UK, the US and France, but Britain is now weighing bilateral options involving development of either a US weapon or France's ASMP missile, already in service. The French option, discounted at first because it did not meet the RAF's range requirements, has in recent months been revived as a serious candidate: more costly but with clear political benefits.

David White

DISARMAMENT

Economic reality finally dawns

THE relationship between disarmament and defence budgets is becoming like the chicken and the egg. Will it be treaty limits that bring savings, or pressure for savings that force further treaty reductions?

Arms control up to and including the Intermediate Nuclear Forces Treaty between the US and the Soviet Union, ratified a year and a half ago, was largely divorced from economic concerns. That has now changed. Since President Mikhail Gorbachev's address to the United Nations in December 1988, announcing a 500,000 cut in Soviet force strength and substantial unilateral withdrawals from eastern Europe, disarmament has been linked to expectations of financial economies as well as the pursuit of greater international security.

Nato and Warsaw Pact countries negotiating a Conventional Forces in Europe (CFE) treaty in Vienna are all already looking to their share of the savings. Western officials at the negotiations foresee the possibility of more unilateral moves in both the East and the West before the treaty process is complete.

The aim is a stable, verifiable and durable agreement, and to get it signed by the autumn, against the background of turbulent changes in eastern Europe. By the time the treaty is implemented, nobody can be certain that all the Warsaw Pact signatories will still be in that alliance. Achieving the terms of a military balance at lower levels, against the clock, is a daunting task. According to one official, it is "probably the most complex diplomatic exercise in history."

Proposals involve about 100,000 treaty-limited items in 23 countries covering 2½m square miles of territory. Nato is anxious to seize the opportunity to get the deal through, fearful of what the future may bring for the Warsaw Pact and for Mr Gorbachev.

These concerns overshadow prospects for a further stage of reductions, already known as CFE-2. Britain is arguing for a pause for breath after the first CFE, but US defence spending plans are clearly geared to a continuation of the process.

The negotiations run parallel with a series of other East-West processes, covering confidence-building measures, chemical weapons, nuclear testing and above all the proposed Strategic Arms Reduction Treaty (Start), which would halve US and Soviet long-range nuclear arsenals.

Conventional forces*: Atlantic to Urals (Forces stationed outside national borders in parenthesis)

	Nato		Warsaw Pact	
MANPOWER ('000)				
Total active ground forces	2,243	(369)	2,317	(565)
Total ground reserve forces	4,136		3,908	
DIVISIONS				
Manned in peacetime	94⅔	(13)	114	(32⅓)
Total war mobilised	135⅔	(13)	220⅔	(32⅓)
GROUND FORCE EQUIPMENT				
Main battle tanks	21,900	(7,200)	58,000	(9,900)
Armoured infantry fighting vehicles	7,000	(2,600)	24,700	(9,200)
Armoured personnel carriers	27,000	(4,100)	49,300	(2,900)
Artillery, multiple rocket launchers, mortars	18,100	(2,800)	49,600	(6,900)
Armed helicopters	1,100	(350)	1,515	(460)
Land combat aircraft bombers	18		285	
Ground attack aircraft	3,210	(670)	2,510	(950)
Air defence/fighters	1,200	(140)	4,240	(490)

* Excludes Soviet reductions in progress

Source: IISS

It is hoped to get the main elements of Start together in time for the June US-Soviet summit. The US has not yet faced the problem of how to get ratification of both a nuclear and a conventional arms treaty quickly through the Senate. But it is thought that the CFE agreement will pose few problems since it is so one-sided in the West's favour.

Draft treaties were presented in December, enabling lawyers on both sides to work on the treaty language. Proposals focus on major weapons that would be employed in a surprise attack and the forces that would be able to sustain the battle.

Nato is anxious to complete negotiations on the Conventional Forces in Europe treaty, fearful of what the future may bring for the Warsaw Pact and for Mr Gorbachev

Common ceilings are being discussed on five key weapon categories at between 10 per cent and 15 per cent below the level of Nato's current holdings in Europe. By the end of the last session definitions were agreed on one category – artillery - but not the ceiling, with Nato proposing 16,500 for each side and the Warsaw Pact proposing 24,000. For tanks and armoured troop carriers, overall numbers were settled – 20,000 and 28,000 respectively – but not definitions. The same applied to helicopters, which Nato agreed to include along with aircraft after the talks had started last year, with a ceiling fixed at 1,900 each side. For aircraft, both numbers and the definition of what should be included were still in dispute, with the Soviets seeking to leave out a number of categories.

For personnel, Nato started by proposing nothing, after the experience of 15 fruitless years and 493 negotiating sessions of the previous Mutual and Balanced Force Reduction (MBFR) talks. At President George Bush's instigation last May, it changed this stance, but limited its proposal to US and Soviet foreign-stationed forces. Bringing these down to 275,000 each would mean a 10 per cent reduction for US forces in western Europe and a halving of Soviet forces in eastern Europe. British forces would not be directly affected, except those attached to treaty-limited equipment, but the Soviets have continued to press for wider cuts.

Western officials were hoping that the new fifth session, just started, could bridge differences in tanks and armoured combat vehicles – redefined by Nato – and that the rest would then be able to fall into place.

Complications on the way to an agreement range from the papering-over of Greek-Turkish disputes to the mammoth issue of verification. Once technical questions have been settled, there will still be an equipment list to be drawn up, decisions to be made on how to divide responsibilities between nations and alliances, and detailed provisions, as in the INF treaty, on how equipment is to be destroyed.

At the same time, Nato has set itself the task of shuffling around its defence equipment holdings so that, like the Soviet Union, it can concentrate on getting rid of older equipment and preserve its latest weapons. This so-called "cascading" process would involve, for instance, supplying Turkey with modern but second-hand tanks and consigning its old 1950s-design M47s to the scrapheap instead. For the less well-off Nato countries, disarmament would become a means of modernising their forces.

To work out this elaborate scheme, Nato has reinforced the High Level Task Force charged with preparing its Vienna position. Among other problems, it has to decide what kind of payment would be made for these transfers.

Since the cuts would mostly affect Soviet strength, most of the economies would be Moscow's. For western countries, the equipment cuts themselves promise to bring only limited savings, if infrastructure is not affected. But some forces, as well as the 30,000 US troops, would be withdrawn with their equipment. Questions have to be addressed as to whether and to what extent the remaining forces then need to be reorganised. The cuts could lead towards a greater pooling of resources, and possibly specialisation in defence tasks between allies, in the search for savings. But they are also likely to raise unit costs for equipment, since smaller numbers will be needed.

Against any saving has to be set the cost of verification, vastly more complex than with the INF treaty, which banned a whole class of weapons rather than setting limits. This is expected to run into hundreds of millions of dollars.

US experts say the treaty will make little difference to the outlook for the annual budget. The reduction of 30,000 Europe-based troops, they estimate, might save up to $2bn. It would take a bigger reduction of 100,000 troops and curtailment of some advanced weaponry to bring substantial savings.

David White

Quentin Peel on the Soviet defence sector's changing priorities

From missiles to mod cons

THE Ministry of Medium Machine Building boasts as its title one of those glorious old-style Soviet euphemisms: in reality it is the organisation which produces nuclear weapons for the military.

Yet today, the euphemism is getting rather closer to reality. The ministry has been ordered to allocate whole factories to the humble production of milk processing equipment.

Not only that. The next products off the nuclear missile assembly line are supposed to be video recorders, computers for schools, lithium for long-life batteries, domestic refrigerators, colour television tubes and monitors and, as a last twist, toothpaste.

That surrealistic shopping list, including many of the most desirable and unobtainable consumer goods in the Soviet Union, was spelt out last year by Mr Lev Ryabev, the Minister of Medium Machine Building.

His optimism about the capacity of the Soviet defence industry to switch production to the most extraordinary assortment of shortage consumer goods, household electronics, food processing equipment and the like seems to be shared by all the main spokesmen for the Soviet government. It is as if the defence complex is to be the golden goose which saves the ailing Soviet civilian economy from collapse.

Certainly the ambitions of the authorities are impressive. By the end of this year, some 49.2 per cent of the entire output of the defence industry is to be devoted to civilian products, or some Rs10.1bn (£10bn) in value. By 1995, that figure is supposed to rise to 60 per cent.

However, the ambitious plans for conversion of the defence industry do not come from scratch. Traditionally, it has supplied considerable quantities of consumer goods from workshops attached to armaments plants: 40 per cent of all output already in 1988.

Mr Oleg Baklanov, the Communist Party Central Committee secretary in charge of the sector, says that 25 per cent of all manufactured consumer goods in the Soviet Union were produced by the defence industry last year. That included Rs5bn worth of computing equipment, and Rs3.3bn in technological equipment for light industry.

However the latest conversion plans, drawn up since Mr Mikhail Gorbachev announced the Soviet Union's unilateral defence cuts at the United Nations just over one year ago, are by far the most ambitious yet. They also seem to be running into far more resistance than the bullish propaganda would suggest.

The aim of the conversion programme is threefold:

- to contribute to the substantial reduction of defence spending in the national income, without causing large-scale unemployment;
- to meet some of the chronic shortages in consumer goods and food production which are undermining Mr Gorbachev's whole reform programme;
- to open up the secretive military sector to allow far greater technological spin-off from defence spending for civilian production.

Only now, however, are the real problems emerging.

The first is that nobody has really thought out what products are most appropriate for each defence establishment to switch to. Instead, a shopping list of shortages has simply been drawn up. Intelligent commentators are horrified at the prospects of devoting a highly-skilled and highly-paid workforce to the output of toothpaste, or bread-making equipment.

Academician Mr Yevgeny Velikhov, one of Mr Gorbachev's leading scientific advisers, has called for new civilian output to be concentrated primarily in high-technology fields.

"We should sell competitive goods at competitive prices on the world market, and purchase the required consumer goods with the hard currency we earn," he says. "If we try to make everything on our own, this may result in expensive and low-quality goods in our shops."

The problem is that popular pressure for basic consumer goods, and relatively simple household electronic equipment (TV sets, vacuum cleaners, refrigerators, etc), as well as decent quality processed foods, is paramount.

In trying to switch to such unfamiliar, low technology products, defence manufacturers find themselves getting bogged down in exactly the same problems as the unprivileged rest of Soviet industry.

The sheer scale of investment in re-equipping the defence industry for civilian uses is only just starting to seep out. Mr Nikolai Ryzhkov, the Prime Minister, has put it at Rs8bn over six years. Unofficial estimates put it at double – some Rs16bn, or more than half the Rs30bn forecast savings from the present level of defence cuts.

Then the drive to switch to consumer goods has another potentially disastrous effect under the Soviet system.

"As a rule, the prices and profitability of civilian goods are several times lower than those of previously-produced (military) goods," says Mr Alexei Izyumov, an economist at the Academy of Sciences Institute for USA and Canada. "In order to keep wages and salaries intact, and find means to convert production, defence-oriented enterprises have either to cut their workforce, or take money from the state budget, the latter being the most popular way so far."

Thus the defence industry workforce, and their trade unions, are in the forefront among potential opponents of defence conversion.

"Conversion involves social and psychological problems," Mr Gennady Yanayev, deputy chairman of the Central Council of Soviet trade unions, told a recent press conference. "The initial experience of converting war industry enterprises to civilian production showed that highly-skilled workers find it difficult to adjust to work that does not require special skills. Moreover, they have got used to high earnings . . . "

Mr Izyumov reckons there is more than just workers' resistance to counter, however.

"Our military just do not want their military economy to be scrutinised by the public," he said. "There are real chances that they public will see many wrongdoings, many mistakes done by previous or current military leaders."

Because of its obsession with secrecy, and insulation from the civilian sector under the centrally planned economy, technology transfers from defence spending to civilian goods have been virtually non-existent in recent years.

Although a new law on state secrets is under preparation, Mr Izyumov and other critics fear it will not go far enough to promote genuine technology transfers, or the sort of joint ventures with foreign companies needed to exploit Soviet know-how.

A full-scale state plan for defence conversion has been prepared, and is likely to be published in the near future. But even that does not really tackle the underlying problems, the critics say.

WEST GERMANY

Militarism's disorderly retreat

GERMAN history tends to move in cycles of extremes. Two generations after the Second World War, the Federal Republic's neighbours and allies are becoming worried again.

The source of the anxiety this time is not aggression, but Germany's desire for peace and disarmament. German militarism is in disorderly retreat on all fronts. The ebbing of defence consciousness raises the risk that the Federal Republic could find itself seriously out of step with the rest of Nato.

The sweeping away of Communist hegemony over eastern Europe and the growing prospects of German reunification have led to a momentous change in the framework in which West Germany's defence strategy has been set since it joined Nato in 1955.

The different aspects are linked. Article 7 of the Relations Convention (*Deutschlandvertrag*) which sealed the Federal Republic's entry to the Atlantic alliance and the formation of the Bundeswehr states clearly a crucial quid pro quo.

As the price for putting up what has grown to become western Europe's largest conventional army, West Germany was assured the support of the United States, Britain and France towards achieving "a reunited Germany enjoying a liberal-democratic constitution like the Federal Republic and integrated within the European community."

Thirty five years later, the mirage of German reunification has swirled into view. Just as Germany's partners – above all, France – are having second thoughts about their commitment to this goal, many Germans in both East and West are asking whether the two German states' embedment into their respective military alliances could block the road to unity.

The Bush administration has been giving almost naively enthusiastic backing to German unity aspirations – but has also stated that a reforged Germany should remain a member of Nato.

As an accompaniment to growing pressure in Washington to accelerate the planned 1990s reduction of US troops in Germany, Mr James Baker, the US Secretary of State, has proposed giving the Alliance a more "political" role.

But, even under this condition, it is difficult to imagine the Soviet Union, under Mr Mikhail Gorbachev or his successor, agreeing to East Germany's complete incorporation into the western sphere of influence.

The twin tasks of keeping the door open to unity while maintaining Bonn's military and political commitment to the West have placed Mr Gerhard Stoltenberg, the Defence Minister, in an extraordinary tight spot.

Mr Stoltenberg, who served for six-and-a-half years as Chancellor Helmut Kohl's Finance Minister, moved into the hot seat at the Ministry's sprawling headquarters at the Hardthoehe in April last year following the dismissal of Mr Rupert Scholz, the donnish lawyer who had held the post for only 11 months.

Mr Scholz, a soft-voiced intellectual whose pernicketiness succeeded in alienating parliament, public opinion and some of the Chancellor's closest advisers, made way for a man with considerably more political experience.

Mr Scholz's sacking coincided with Bonn reversing an unpopular plan to increase the conscription period from 15 to 18 months – and now pressure is building up for a renewed reduction to 12 months.

Mr Stoltenberg has pleaded constantly for West German public opinion not to confuse "hopes and realities" in dealing with the still sizeable Soviet military capability.

But with the political routing of the Warsaw Pact over the past six months, his words have an increasingly hollow ring. Mr Stoltenberg has succeeded in keeping his head below the parapets so far – but the Defence Minister's advisers say that his toughest time may well be approaching.

Parliamentary opposition to big-spending projects, above all the four-nation European Fighter Aircraft, has been growing for more than a year. Although Mr Stoltenberg has insisted that the aircraft will be built, a German withdrawal from the venture is no longer impossible.

Plans agreed by the cabinet in December to reduce the size of the Bundeswehr – which has been maintained (for the three armed forces) at 490,000 since the 1970s – to around 400,000 by the mid-1990s do not go far enough for public opinion.

Nato narrowly averted a serious crisis in 1989 over the plans of the US, Britain and France to press for new short-range nuclear missiles to be installed in West Germany by the mid-1990s. A decision on the so-called "modernisation" of the ageing Lance missile has now been shelved until 1992.

West Germany has moved over the past six months even more firmly against a decision to deploy new weaponry.

So a renewed row will only be averted if Washington – as seems increasingly likely – decides to forego altogether upgrading the Lance.

In a clearly propagandistic move by Mr Gregor Gysi, the new chairman of the East Berlin Communist Party, East Germany has proposed cutting the armies of both German states by half by 1991. Up to 50 per cent of the East German National People's Army is anyway thought to be deployed in civilian jobs, such as on the railways and in hospitals, to cope with manpower shortages caused by the exodus of 340,000 East Germans in 1989. So the East German initiative can hardly be taken seriously.

A more serious worry comes, of course, from Moscow. In suggesting that the superpowers should bring home their foreign armies by 2000, the Soviet Union has brought into the realms of the conceivable a pull-out of both US and Soviet troops stationed in Germany. Both countries maintain their biggest foreign commitments on East and West German territory – a carryover from the end of the Second World War which both find increasingly unpalatable.

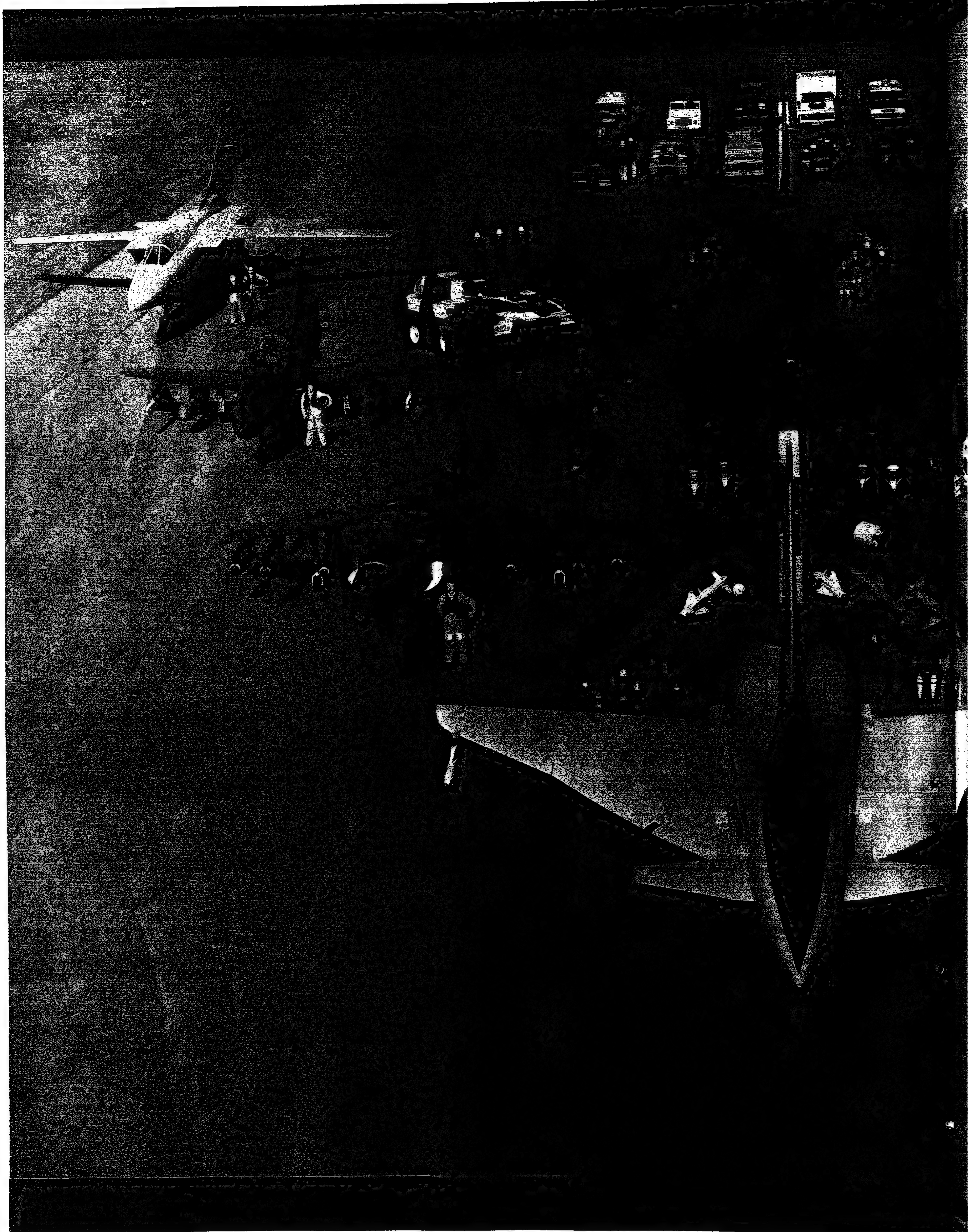
Mr Gorbachev is insisting that he has no intention of starting an initiative on the German Question. But a Soviet call for concomitant withdrawals of foreign troops from both parts of Germany cannot be ruled out over the medium term as a way of assuring that any united German state would be neutral.

The ending of the Cold War has been appropriately marked by a steady rise in the percentage of West Germans agreeing with a pull-out of American troops from Europe. This proportion reached, according to the Allensbach opinion research company, just under 40 per cent of the population at the end of the 1980s.

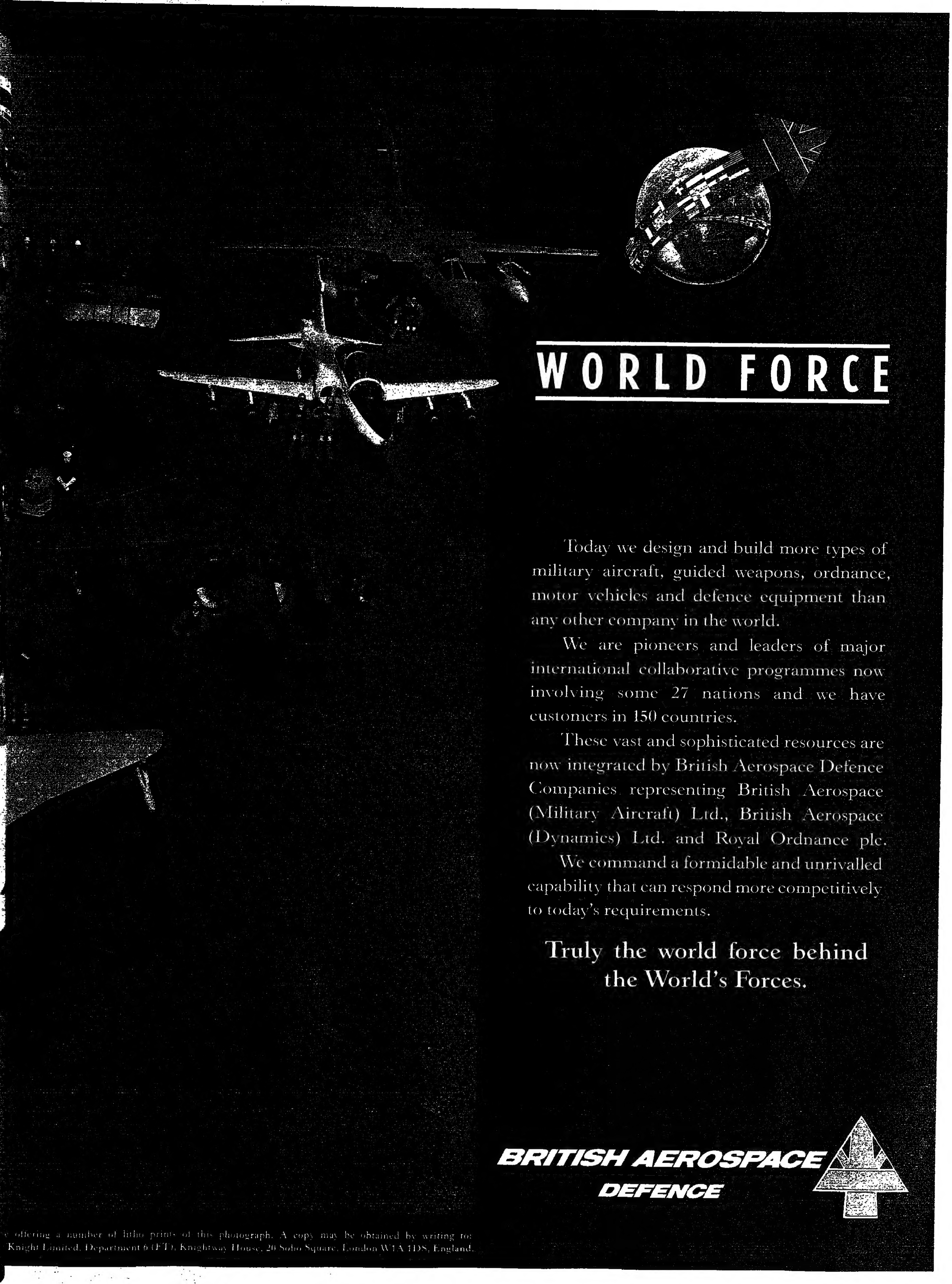
As well as supporting stability and prosperity in western Europe, for 35 years, West Germany's Nato membership has also bolstered Germany's own national aims. But that may no longer be true for the 1990s.

David Marsh

Harrier GR5 at Gütersloh, Germany: Bonn could find itself out of step with Nato allies because of its desire for disarmament



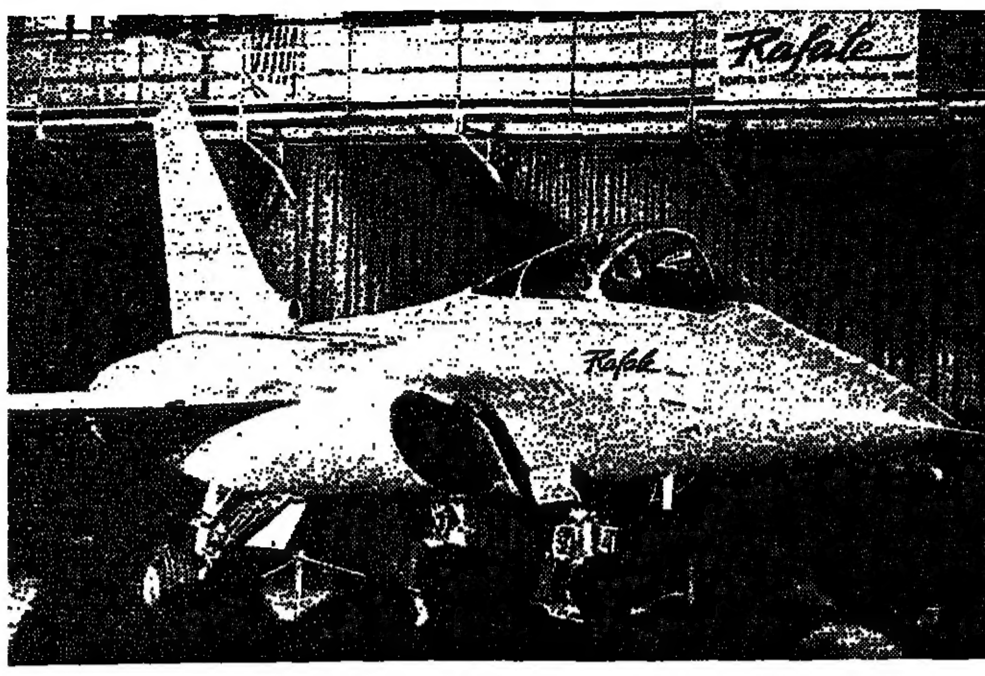
Displayed are: EAP (Experimental Aircraft Programme) – forerunner of the new European Fighter Aircraft, Harrier II GR.5 (advanced V/STOL fighter), Sea Harrier FRS2, Hawk 100 (advanced jet trainer/strike aircraft), Hawk 200 (single-seat fighter), Tornado ADV x 2 (Air Defence Variant), Tornado IDS (Interdictor Strike); Active Sky Flash, Boosted Sea Eagle, Sea Skua, Seawolf, ALARM air launched weapons; Merlin, Swingfire and TRIGAT anti-tank weapons; Sea Urchin and VEMS underwater systems; British Aerospace Systems and Equipment products (BASE); Rapier, Laserfire and Rapier 2000 surface-to-air defence systems; Royal Ordnance 105mm light gun, 30mm Rarden gun, 81mm Mortar



n turret mounted mortar on a RO 2002 armoured vehicle, SA 80 family of infantry ns, Aden cannon, tripod mounted machine gun, artillery, mortar, tank and aircraft and ammunition; construction equipment from Ballast Nedam and Land Rover and Rover vehicles.

Ian Davidson on French efforts to confront some familiar problems

Old rhetoric clouds debate



France is going ahead with its Rafale, which is expected to cost £12bn for 336 aircraft and could well be the last such project that the French undertake as a national venture

PRESIDENT Francois Mitterrand spent most of the 1980s trying to square the circle of French defence policy. He aimed to sustain the long-standing popular consensus behind the Gaullist tradition of strong national defence based on an independent nuclear deterrent force, outside the integrated structures of Nato; at the same time, he reinforced France's political solidarity with the United States, and tried to work towards a more united European defence system, primarily by closer defence links with West Germany.

But the old decade ended with the circle still unsquared, with a clear admission that France's existing defence plans were more than the Socialist government was prepared to spend; and with an increasingly open sense that the Franco-German partnership was not going to provide a magic key to a European defence system.

In the new decade these disappointments are not necessarily dramatic. The unfreezing of the Cold War, and the prospects for far-reaching conventional disarmament, may make it easier to think about new strategic arrangements in Europe at lower cost. But for the time being, the French defence debate remains stuck in the old rhetoric.

The most important single event in French defence policy in 1988 was the passage of a new defence law, which significantly reduced projected defence spending for the following four years. The new Socialist government was committed to a big increase in the rate of expenditure on education, as well as to the introduction of a new minimum income scheme.

At the same time, Prime Minister Michel Rocard was determined to stick to the path of prudent economic management, by reducing the budget deficit steadily year in and year out. Something had to give, and that something had to be the defence budget.

In effect, this new *loi de programmation militaire* amounted to a downward revision of the existing defence law, passed two years earlier by the previous Gaullist government, (and endorsed in parliament at the time by the Socialist opposition). Needless to say, the new bill provoked a storm of denunciations from the conservative parties.

In fact the new law did not entail a reduction in French defence spending: just a slowdown in the rate of increase of spending on military equipment. According to the trajectory set by the 1987 *loi de programmation*, equipment spending was to have totalled FFr 470bn (in 1989 francs) during the four years 1990-93, compared with FFr 98bn (£10.5bn) in 1989. Early last year, the Finance Ministry started out by demanding that the total be cut to less than FFr 400bn (£42.8bn), which would indeed have had the effect of a reduction in real terms. In the event, President Mitterrand cut the pear in two, by imposing a new reduced total of FFr 438bn.

In spite of the slowdown, which he had fiercely resisted, Mr Jean-Pierre Chevenement, the Defence Minister, could therefore still claim that France remained the only leading power (apart from Japan) which was continuing to increase its military equipment spending in 1990 (up FFr 5bn to FFr 103.1bn); that the share of the French defence budget going on equipment (as opposed to running costs) was continuing to rise every year, from 46 per cent in 1983 to just under 54 per cent in 1990; and that in the combined total of the two headings, France was spending more on defence than any other European country, even including West Germany and Britain.

For obvious political reasons, the Government has made it a point of honour to insist repeatedly that none of the scheduled major weapons systems will be sacrificed.

The nuclear powered aircraft carrier Charles de Gaulle will be built, but delivered two years later than originally planned in 1998. The new Leclerc main battle tank will go ahead, with delivery starting in 1991. The Rafale advanced combat aircraft will start in service in 1996.

Similarly, the French nuclear deterrent will be untouched. The modernisation of the present generation of strategic missile submarines, equipped with multi-warhead M4 missiles, will be completed, while three of the next generation of missile submarines, armed with new M45 missiles, will enter service between 1994 and 2000. The Pluton short-range nuclear missile will be replaced by the longer-range Hades, starting in 1992. The 18 S3 long-range land-based missiles will continue in service, to be replaced around the turn of the century.

Since all the main programmes are going ahead, the savings can only come from stretching, squeezing and scraping. The Government has not spelled this out, but it seems clear that various weapons systems will be delayed or scaled down. The Charles de Gaulle is being delayed, the modernisation of the existing AMX 30 B2 will be halted in 1991 and deliveries of the existing Mirage 2000 will be scaled back from 33 a year to 28.

In other words, the defence review was embarked on as if all France's existing military missions would remain the same in the 1990s as they had been in the 1980s.

Whether these assumptions are prudent, is open to question. In the newly emerging configuration of Europe, for example, it is not clear that there is a politically acceptable role for a short-to-medium nuclear missile like Pluton or Hades, which could only strike targets in East Germany. Even some Gaullist politicians are now demanding the abandonment of the Hades programme.

Of course, most of the bargaining over the new *loi de programmation* took place before the eruptions in eastern Europe. So long as the fall-out from these eruptions remains uncertain, no doubt it makes domestic political sense for the French government to adhere to the maximum amount possible of continuity, in order to prolong as long as possible the national consensus on defence policy.

But if, as seems quite possible, the Vienna negotiations lead to an agreement before the end of this year on deep cuts in conventional forces in Europe, then western countries may have to engage in a radical re-think of their defence postures, both conventional and nuclear. That might in turn require a joint re-think by France and its European allies. But if anybody in France is thinking about this, they are not saying so in public.

JAPAN

A role under fresh scrutiny

IN A world where economic considerations have increasingly come to replace military ones, Japan is finding itself in the curious position of being under pressure to shift its emphasis in the opposite direction.

The combined effect of spreading East-West detente and the persistent economic problems of the US has been to further intensify US demands on Japan to take on more of the responsibility of defending itself and of policing the Asia Pacific region.

Over the years, the US has encouraged a gradual build-up of Japanese military capabilities, urging the formation of the Self Defence Forces back in 1954 and the extension of Japan's naval defence territory to 1,000 nautical miles from its shores in the early 1980s. More recently, Washington convinced Japan that it should make an exception to its ban on military exports and allow the transfer of military technology to the US.

Such pressure has also led to greater Japanese financial support for the US military presence in the Pacific and has made it necessary for Tokyo to put its own military house in order so that it can more realistically take on a role in defending itself.

But more fundamentally, the growing US reluctance to be the world's watchdog and its insistence that Japan take on more of the regional burden is raising urgent questions in Japan about its role in the world, its relationship with the US and, inevitably, the relevance of the security treaty with that country.

Any signs of weakening in the US military commitment may offer the more nationalistic elements in the government a good case for increasing Japan's military profile. But the reaction among policy makers within the Japan Defence Agency (JDA) has been more cautious. Signs emanating from the government indicate that the favoured response is to maintain the present US-Japan defence hierarchy and to put off any fundamental changes in Japan's defence posture for as long as it is possible.

There are many reasons why Japan cannot easily adopt a higher defence profile in spite of the urging of the US. Public opinion, although difficult to define and unassertive by western standards, is the decisive deterrent cited by many Japanese defence experts.

"Japan does not want to take over from the US as world policeman," says Mr Ryoji Onodera, director general for International Affairs of the JDA. For all the US pressure on Japan to share its burden in defending the Asian Pacific region Japan could not become a leading military power because the Japanese people would not support such a move.

The country's experience in the Second World War has ensured that public opinion remains strongly against a military build-up, says Mr Makoto Momoi, a former dean of international securities studies at the National Defence College and currently an independent defence analyst.

Public opinion also indicates to many defence experts that the Japanese are quite comfortable with the present situation of being militarily dependent on the US. "Until now the country has been able to grow economically without commensurate military efforts. There is no reason why it cannot go on doing so," says Mr Onodera. The necessary prerequisite is to maintain the US commitment to Asia. "This is the consensus view within the Japanese government," he says.

If the trend to a thawing of the Cold War continues throughout the world, the public will see even less need to build up military strength. The protest of neighbouring countries at every sign of Japanese defence build-up is no small consideration either. Growth in military expenditure has so far been condoned by south-east Asian nations in the past largely as a necessity arising from US demands. And since they also benefit from the US security umbrella in the region, it is difficult for them to complain.

It has often been claimed that the Japanese public has hardly been aware of the gradual build-up in military capacity. Mr Onodera is certain that what appears to be public apathy is rather the detached response of a public that is secure in the knowledge that legal, political and other regulatory restraints keep military expansion in check. "Once that framework is breached, the reaction is very sensitive," he says.

Meanwhile, the domestic political situation makes it unlikely that the arguments of defence hawks, or even moderate nationalists, will win much applause. The opposition, which now controls the Upper House of the Diet, is led by the Japan Socialist Party, which has traditionally been opposed to any defence establishment whatsoever. The JSP has proposed freezing defence expenditure at its fiscal 1989 level for the next three years and setting up a special committee on disarmament to study Japan's policy on defence.

The defence budget for fiscal 1990 that was approved at the end of last year represented a 6.1 per cent increase over the previous year breaching the Y4,000bn level for the first time. That it has been kept under the sacred measure of one per cent of gross national product is due merely to the robust growth of the GNP itself. With the new budget, the JDA will be able to attain the level of defence capacity it aimed for in the Mid-Term Defence Plan that is to be concluded in fiscal 1991-92.

Flying into trouble: the controversial FSX support fighter, the focus of a dispute between Washington and Tokyo

Japan's huge defence budget has been a big source of concern among its neighbours, and critics point out that the steady increase in military spending is evidence that it is moving stealthily towards rearmament. This seems overstated. In most of the past few years, defence has been the fastest growing item in the budget, but this year it is well below the 8.2 per cent increase in overseas development assistance and even below the 6.6 per cent rise in social welfare spending, suggesting that priorities have begun to shift.

Since the capability level outlined in the Mid-Term Defence Plan will be attained with the fiscal 1990 budget, the near term trend will be not to raise the defence budget above the fiscal 1990 level but to maintain it, says the JDA's Mr Onodera. The emphasis will be on quality rather than quantity and the main areas of emphasis in the near term are improving logistics and the 3CIs – command, control, communication and intelligence.

Spending will also focus on areas where Japan needs to support the US military presence in the Pacific, particularly US naval forces. For one thing, the most convincing rationale for increased defence spending that the JDA has is the need to continue supporting US activities in the Pacific. The government is also eager to appease the US at a time when trade friction between the two countries has worsened.

But a continued reliance on the US as the leader in the US-Japan military alliance does not necessarily mean that Japan will also bow to pressure to buy more weapons from the US. In maintaining the US-Japan strategic alliance thus far, the interoperability of weapons systems has been an important consideration and has supported the manufacturing by Japanese contractors of US defence equipment under license.

Recently, however, the JDA has shown keen interest in supporting the growth of the domestic industry to which manufacturers have responded with equal enthusiasm. In terms of aircraft, Japan is likely to continue to bow to US pressure not only because it lags behind in this technology but also because building a strong domestic aircraft industry would trigger resentment in the US. Japan already has an advanced shipbuilding industry and in missiles it has forged ahead with its own efforts. "Defence technology will increasingly become a two-way flow," says Mr Onodera.

Whether or not that two-way flow will take the form of joint ventures such as the controversial new generation FSX fighter jet project is still difficult to predict. There is considerable resentment on the Japanese side over the whole FSX affair. The US side, it will be recalled, insisted that Japan develop a new fighter jointly with the US rather than unilaterally. Then, early last year, having agreed on a plan, the US Congress demanded that the agreement be renegotiated to provide additional assurances that sensitive US technologies would not be transferred to Japan.

"With the FSX issue, many Japanese have come to see the US as unreliable," said one defence analyst.

Michiyo Nakamoto

MILITARY ELECTRONICS CONTRACTORS

Contest for the right connections

A YEAR ago Thomson-CSF, the French state-controlled company which is the biggest of Europe's military electronics contractors, drew up a list.

On it were 11 other European companies active in the same sector that Thomson had identified as candidates for a reshuffle. Between them they represented more than a quarter of a European industry with annual sales of $21bn.

Eight of them were British. The UK has the biggest selection of companies in this field of any country outside the US. When the restructuring started, Britain was bound to be in the thick of it.

Since then, it has all begun to happen. Most of the companies on the list have been directly affected by the drive towards bigger groupings that Thomson's management saw coming.

European companies have some notable strengths in military electronic technology, but have never been powerful or efficient enough to compete on an equal footing with their US counterparts.

The justification for regrouping rests more than anything on the growing cost of research and development and the limited extent to which governments are ready to back it. According to Thomson, these costs typically double between each generation of equipment, which may be a gap of between five and 10 years. Companies are therefore looking increasingly to share the costs, or to secure outlets beyond their national markets, which are tiny in comparison with the US.

The combined European market is put at $16bn a year, less than a third of the $52bn US market. The market in the rest of the world, for which Europeans and Americans compete, is estimated at $15bn.

In addition, companies will have to face increasing competition from the Japanese, who have so far not brought much muscle to bear in the military sector but clearly have the capacity to do so. A prime example is the research into new-generation radar and sensor technology that Japan is pursuing under its FSX fighter development programme with the US.

What sparked the process off was the takeover of Plessey, the first company on Thomson's list. GEC and Siemens had already launched a joint bid – GEC's second attempt – in 1988. Under a revised plan, the bidders set about dividing Plessey's defence interests in order to get around the Ministry of Defence's competition objections: Siemens taking Plessey's radar and military communications, GEC-Marconi taking avionics and underwater systems. After more wrangling with the MoD, the £2bn bid was clinched last September.

Next in size on the list was the defence side of Philips, the wide-ranging Dutch-based electrical group. The company first sold its Swedish defence offshoot Philips Elektronikindustrier to Bofors of Sweden. Then Thomson itself stepped in to buy the bulk of the business: control of Hollandse Signaalapparaten, the group's core military electronics company, with the defence side of its French TRT subsidiary and a slice of Philips' Belgian defence interests.

And number three was Ferranti International. The British company's subsequent crisis, due to an extraordinary alleged fraud of £215m in the US company it took over in 1987, International Signal and Control, was not directly attributable to the state of the industry as a whole. But Ferranti had already been pinpointed as a potential takeover target. In the wake of the scandal, a bevy of British, US and European companies started talks on a rescue bid. Two of the most hotly-tipped – British Aerospace, which was considering bidding jointly with Thomson, and Daimler-Benz – have pulled out, and the future remains in the balance.

The other companies considered "reshuffle" candidates were the UK state-owned Short Brothers, since taken over by Bombardier of Canada; Bodenseewerk Gerätetechnik, a West German missile system company in which Matra of France has since taken 20 per cent; Thorn EMI, which put its defence side up for sale in the summer but failed to persuade the likes of Thomson to pay £300m for it and is now considering joint venture options instead; Racal, which also went out looking for allies and has held contacts with Thomson; Link-Miles, the British simulation company, around which the French, once again have been sniffing; Ericsson of Sweden, which recently reached agreement with Bofors to merge their electronic command and control systems; and two other UK companies, Dowty and Smiths Industries, both of which have shown interest in parts, at least, of Ferranti.

The rapid move towards larger groups has so far taken place principally within national borders. Coinciding with the success of the GEC-Plessey bid, West Germany cleared Daimler-Benz's takeover of Messerschmitt-Bölkow-Blohm, leading to the establishment of a new Deutsche Aerospace subsidiary grouping aerospace, engines, weapons and military electronics.

In France, Thomson and Aérospatiale, also state-controlled, have pooled their avionics activities in a joint company, Sextant Avionique, putting together complementary strengths in navigation, guidance and display devices and according to Thomson taking fourth place in the world ranking, just ahead of Smiths.

More recently, however, significant cross-border alliances have begun to take shape, with a plan by British Aerospace and Thomson to merge their guided weapons businesses and a space link-up between Matra and GEC-Marconi, seen by the French partner as the beginning of something bigger with GEC and Daimler-Benz, which both have Matra shareholdings.

The British Ministry of Defence has been fighting to try to ensure that the process does not go so far as to eliminate or undermine competition. That was one reason, along with national security considerations, why it was so tough on the Plessey takeover. The sole national-supplier situation that has arisen in defence sectors such as tanks, helicopters, aero-engines and combat aircraft is something it has been anxious to avoid in other areas.

It is fostering competition in munitions following the privatisation of Royal Ordnance, now part of British Aerospace; it would like to have competition for GEC-Marconi in torpedoes; and is determined to keep its options open in electronics.

Electronics has become the main course of the defence business. Weapons have increasing electronic content; in a combat aircraft, for instance, the share has grown from nothing 40 years ago to perhaps 40 per cent. Cuts in defence equipment will still leave room for growth in many electronics areas, including long-range surveillance, guidance, "smart" missiles, simulation (especially with pressure to reduce real-life training in countries like West Germany), and the whole area of command, control, communications and intelligence.

The trend towards more integrated defence systems means that the main contracts, if bigger, will be fewer. The conclusion is that while there promises to be continuing good business, there will not be room for everybody. Further restructuring is expected not only in Europe but also in the US, where much of the sector now comes under large motor, aerospace and electrical groups.

Airborne radar is a case in point, especially if all the current military aircraft projects being planned on both sides of the Atlantic do not survive budget cuts.

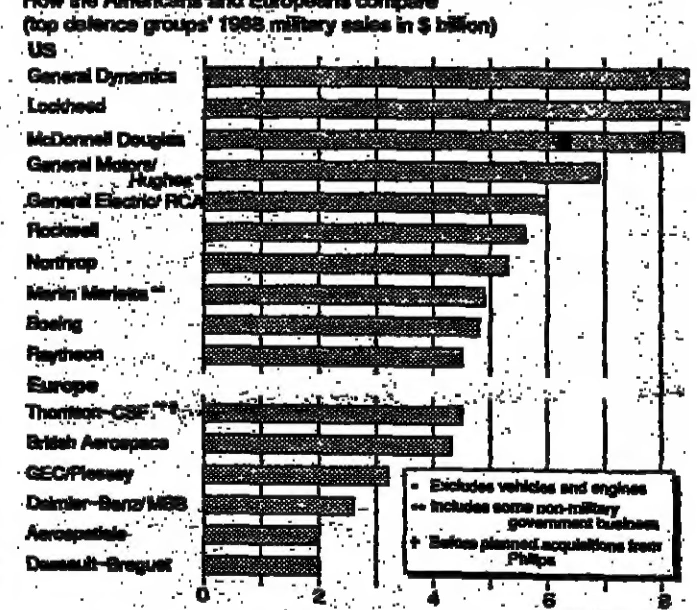
In the UK, Ferranti and GEC-Marconi face a crucial decision in the long-drawn out battle over the radar for the four-nation European Fighter Aircraft.

Ferranti, which has been developing the Blue Vixen radar for the Sea Harrier, leads one consortium. GEC-Marconi, producer of the Foxhunter radar for air-defence Tornado jets, is with the Daimler-Benz subsidiary Telefunken System Technik in the other, obdurately backed by the West German government, which thinks it is a lower risk. The contract, worth at least £1bn, will determine for both companies their future in the sector.

David White

The top defence companies

How the Americans and Europeans compare (top defence groups' 1988 military sales in $ billion)



Source: FT research

UK research and development

Cause for concern

THE Ministry of Defence manages Britain's biggest research and development programme, accounting for half of the public spending on R and D. It plans to spend £2.54bn in 1989-90, of which £806m will be spent in its own seven research establishments, and £1.55bn with its contractors, mostly on development in private industry. The universities will receive about £18m, mostly for underlying research.

Latest government figures published in October for national spending on R and D suggest that the Government has effectively "rate-capped" R and D spending by the MoD. In the mid-1980s, it was expected to reach 55 per cent of the national total by now, but in fact it has stabilised at about 50 per cent.

A report from the government's Advisory Council on Science and Technology (Acost) last May, on the civil benefits of this big military R and D effort, shows why its size had been a cause of concern throughout the world of science and technology.

While the report approves of some of the ministry's efforts to spread its technology more widely, it said bluntly that the MoD must pay more heed to national needs and capabilities in key new "enabling technologies", instead of dictating the priorities. For "enabling technologies", one can read research.

The two-year Acost inquiry was led by Sir Charles Reece while still research director of ICI. It calls for a big reorganisation in the MoD to promote what it terms the "spinning-in" of new technology from the civil sector, where previously the focus has been on trying to harness "spin-off" for civil use, a subtle but highly significant change in perception.

The Reece report finds defence procurement – running at around £9bn a year – too small a part of the UK economy to allow MoD to dictate national policy in such vital enabling technologies as advanced materials and electronics. Sir Francis Tombs, chairman of Acost as well as Rolls-Royce, called the Reece report "challenging, critical, but I hope constructive". He said it was perhaps the most important report Acost had drafted. Moreover, its basic conclusions had been accepted with unprecedented speed by government.

According to the report, about 25 per cent of UK R and D is devoted to defence, but only about one-fifth of this expenditure is likely to have any application in the civil sector. It highlights the "low spin-off potential of much of the work conducted during the most costly engineering development of military systems." Corporate cultures and industrial organisations required for the defence and civil markets are often very different in character. It finds evidence, however, suggesting that the UK is less successful than some other countries in bridging their different requirements.

It concludes that over-concentration on the relatively protected military market may reduce companies' future abilities to access and utilise effectively those technologies which are being developed primarily for civil purposes, but which are becoming increasingly important in military systems. Sir Charles Reece said the MoD recognised no remit for supporting the technical capability of the defence industry, and was unaware of the substantial benefits that could accrue to itself from greater synergy between the defence and civil sectors.

The Reece committee tried to construct a model of how the MoD reached its technical decisions. This model (see diagram) is complex and reveals no clear accountability, the committee concludes.

The Government, in a response published with the Reece report, says the MoD has accepted the basic proposition that this ministry must not sequester too big a share of national R and D resources. It announced changes involving a more taut, more precise customer-contractor relationship, and better focused and strengthened management of the defence research establishments.

Four of the six non-nuclear defence research establishments are to be merged into a single organisation, as a prelude to becoming a single Defence Research Agency. As part of a current review of its defence research strategy, the MoD is defining areas in which it believes it must have its own expertise, to distinguish them from areas where it believes it can rely on industry.

The Government warns, however, that whether or not there is an international free market in defence equipment, the MoD will have to continue to spend heavily on R and D. In many areas the risks are too high in relation to likely commercial returns to expect private companies to embark on large-scale R and D projects themselves.

The four defence research establishments expected to form the core of the Defence Research Agency are the Admiralty Research Establishment, the Royal Armament Research and Development Establishment, the Royal Aerospace Establishment, and the Royal Signals and Radar Establishment. The plan is to recruit a chief executive for the agency, with the aim of bringing it into being early in 1991.

Defence R and D has been identified as a significant opportunity by another government R and D agency, the UK Atomic Energy Authority. The nuclear weapon work of this body was hived off to the MoD in 1973, and will remain outside the Defence Research Agency. But defence is one the nine business sectors identified for a new non-nuclear initiative undertaken by the UK AEA this year, under the banner of AEA Technology.

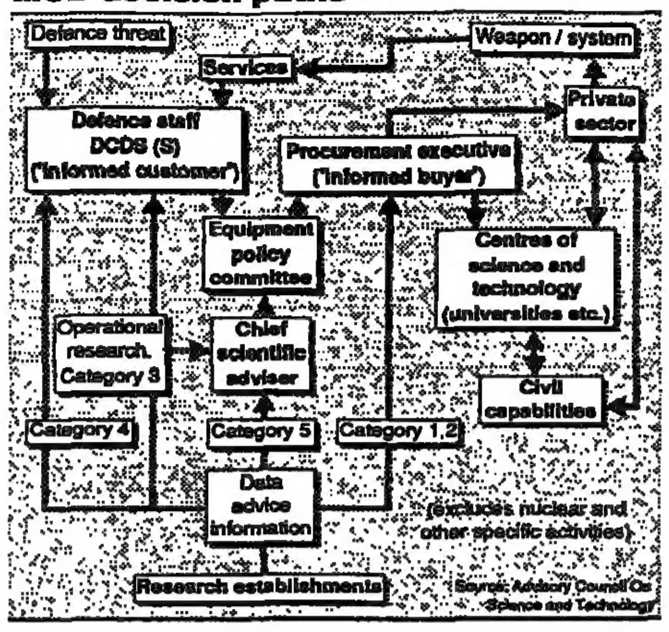
The organisation had already discovered – to its own as well as the company's surprise – that British Aerospace was its biggest non-nuclear contractor, with business worth about £1.5m a year. AEA Technology starts life with defence contracts totalling about £25m a year, mostly for R and D on submarine reactors and the management of military radio-active wastes.

Market research suggests defence could offer a much bigger market, and not only in Britain. The Culham Laboratory, for example, has won an £8m contract from the US Strategic Defence Initiative to work on particle beam weapons. It also claims to be in the vanguard of experiments with electromagnetic propulsion, and equipped with the only UK electro-magnetic railgun outside defence research establishments.

David Fishlock

* *Defence R&D: a national resource. HMSO. £6.30*

MOD decision paths



SDI INITIATIVE

Defence shield loses its shine

"When they had eventually calmed down a bit and gotten home, Mr Duncan put the magic pebble in an iron safe. Some day they might want to use it, but really, for now, what more could they wish for? They had all that they wanted." (Sylvester and the Magic Pebble, by William Steig, American children's story.)

The Brilliant Pebble is the best idea anyone has come up with so far for saving the US Strategic Defence Initiative, the programme launched with such visionary zeal by President Ronald Reagan six years ago and better known as Star Wars.

Where the name came from is a matter for etymologists, but it appears to be traceable to a Pentagon scientist's first attempt at describing the idea of a computerised weapon designed to detect and track ballistic missiles, then destroy them just by hitting them, like throwing a rock. The description "smart rocks" had overtones that were too butch even for the Pentagon, not to say obscene. As the idea moved to something smaller and smarter it became Brilliant Pebbles.

The principle of putting thousands of small autonomous "missile-killers" in space, without warheads but packed with technology, has a simple logic behind it. It costs, Pentagon officials say, $8,000 per lb to put something in orbit. If the weapons can be made small enough it might be possible to send enough of them up and for the US to afford it.

The concept represents a drastic down-scaling of the SDI programme. Officials say it is based largely on existing technology, with the main breakthrough being in miniaturising components. Mr Dick Cheney, the US Defence Secretary, claims that "very few people, any longer, question the feasibility of the programme" – leaving only the political issue of whether it is the right thing to do.

However, on both political and technical grounds, SDI remains highly controversial.

In the new defence authorisation package, SDI funding has been reduced for the first time since the beginning of the programme, although it has always received less than was asked for. Under a compromise struck between the House of Representatives and the Senate, authorisation for the fiscal year which began last October is set at $3.6bn not counting $220bn from the Department of Energy. This is below the 1989 figure and $1bn less than the Pentagon asked for, after it had already trimmed $1bn off the plans handed over from the Reagan Administration.

The Bush Administration, although it has its SDI sceptics, is taking the programme forward on the basis of "vigorous research" on technology that could be used, from space or from the ground, to defend against ballistic missiles threatening the US or its allies.

But Mr Cheney, while supporting the programme, says it was "oversold" by Mr Reagan, who launched it in 1983 in order "to give us the the means of rendering these nuclear weapons impotent and obsolete."

His vision of an "impenetrable shield" has receded. An SDI system as currently conceived would never provide 100 per cent defence, and even if it did so against ballistic missiles the US would still be vulnerable to low-level cruise missiles launched by aircraft or submarines.

Even Vice-President Dan Quayle, a staunch supporter of the project, especially in the light of ballistic missile proliferation among Third World countries, has dismissed the "political jargon" used to dress up the scheme.

Strategic Defence Initiative* ($bn)

	Requested by Administration	Approved
1985	1.8	1.4
1986	3.8	2.7
1987	4.8	3.3
1988	5.2	3.6
1989	4.5	3.7
1990	4.6	3.6

*Excludes Department of Energy funding

Strategic Defence Initiative Organisation

The idea has switched to a partial defence that would require the Soviet Union to commit more missiles to an attack. It is therefore seen as strengthening nuclear deterrence rather than as an alternative to deterrence. But this means it has to compete for funds with other strategic deterrent programmes such as mobile land-based missiles, the B-2 bomber, and the Trident D-5 submarine missile system.

With Brilliant Pebbles the expected cost of Phase 1 of SDI – the military requirement being to provide a substantial defence against ballistic missile attack – plummets by more than half to about $25bn.

Little more than a year ago the figure was $115bn, for a system entailing sensor satellites, ground-based rockets with conventional warheads and 300 space-based satellite "garages", each housing about 10 interceptors. The figure was then slashed to $69bn by halving the number of garages.

The metre-long Brilliant Pebbles would not only be cheaper in themselves, by being more lightweight, with smaller engines requiring less fuel, but would also eliminate the need for some of the other systems on which work has been under way. About $17bn has been spent in total on the programme so far.

Officials say the programme is on course for a decision in the mid-1990s on whether to proceed further. Deployment would automatically imply abrogation of the 1972 Anti-Ballistic Missile (ABM) treaty, under which the US and the Soviet Union limited to an agreed minimum their protection against missile penetration.

To what extent research and testing contravenes the treaty has long been a source of argument between Washington and Moscow.

At the meeting between Mr James Baker, the US Secretary of State, and Mr Eduard Shevardnadze, the Soviet Foreign Minister, in Wyoming last September, Moscow agreed to separate this issue from the Strategic Arms Reduction (Start) talks. But it has still reserved the right to call off a Start agreement if it deems that US is not sticking by the ABM treaty.

Current research has not yet reached the stage of establishing for certain that the concept of a space-based system is workable, although Mr Cheney claims there are "no major scientific roadblocks" in the way.

The Phase 1 network of sensors and interceptors would be designed to blunt the leading edge of a nuclear first strike, coming from land-based or submarine-launched long-range missiles. The idea is that the defence should be sufficient to prevent the Soviet Union from having confidence in being able to complete the attack.

The requirement laid down by the Joint Chiefs of Staff is reported to be effectiveness against 50 per cent of the Soviet SS-18 heavyweight missile force.

This requires surveillance of the launch, and the ability to identify the weapons, determine their direction, track them, distinguish them from decoys and "junk," and destroy them, ideally in the boost phase – with a command and control system tying the whole operation together.

The programme is also working on the more exotic and capable technologies such as space-based lasers and neutron particle beams.

Although some 200 contracts have been signed with companies outside the US, the overflow of high-technology work to allied countries has fallen well short of initial expectations. Offshore work contracted so far amounts to about £350m, with the largest share going to Israel.

At the outset the British government sought a guaranteed share of at least $1.2bn, but last year's Defence White Paper recorded an altogether more modest figure, to date, of $65m.

SDI has certainly added to a considerable amount of scientific interchange and given UK companies access to US programmes that would otherwise have been declared "black." But it is no longer the dream it was.

David White

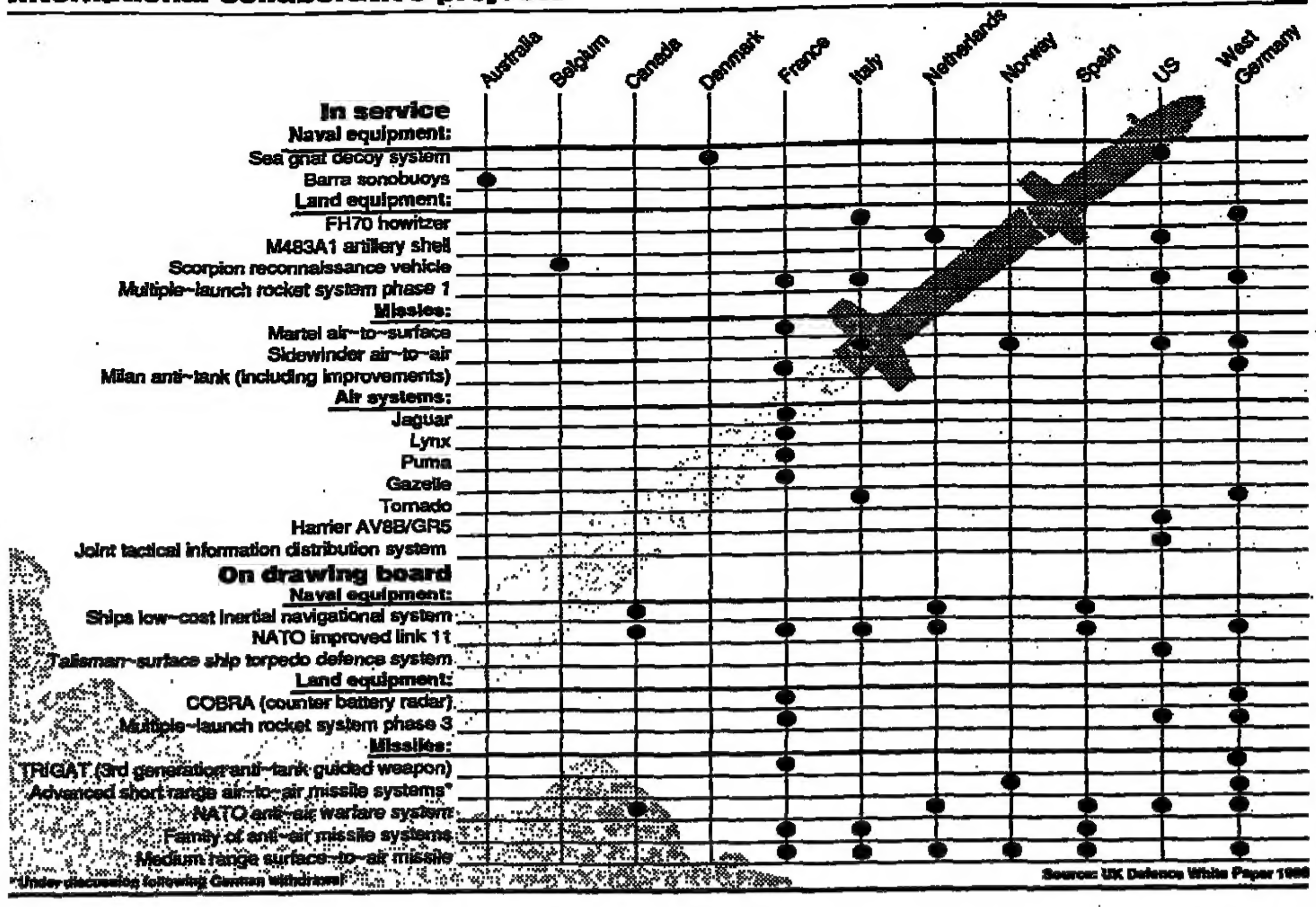
David White on the impact of spending curbs and disarmament on four military equipment sectors

THIS year, the impact of détente, disarmament and defence spending curbs on leading equipment projects will begin to become apparent, starting with the US, where the cuts are already looming.

The effects of this climatic change on European industries are still unknown. So far, the latest reorganisation plans in the defence business have focused on electronics and weapons, more than on the platforms that carry them.

Aircraft, helicopters, fighting vehicles, surface ships and submarines, cyclical products which have to be planned to serve for an average of 20 years or more, have been subject to varying degrees of international collaboration. In the UK, as elsewhere, some big decisions are pending.

International collaborative projects



In line for the Vienna cuts

The United States, Britain, France, West Germany and the Soviet Union all design and build main battle tanks for deployment on the central front in Europe.

On the Warsaw Pact side they are standard. On the Nato side they are different kinds, using different ammunition. Not since the Second World War has any of the five countries, except West Germany with some US M48s, bought tanks from abroad.

Tanks

Tanks will be directly affected by any arms reduction emerging from the Nato-Warsaw Pact negotiations in Vienna. Although this cut would initially be limited to about 10 per cent for Nato, with the implications for different members still to be worked out, the UK Government has to reconsider its needs as it gears up for a decision on its next tank generation.

Prototypes of the Challenger 2, Vickers' candidate to replace out-of-date Chieftains, are due by the end of September.

The latest versions of the US M1 Abrams and the West German Leopard 2 are still in the running for the UK contract. When Vickers received £90m of government backing in December 1988 for its "demonstration phase," it was calculating on an eventual order for 650 tanks. Now it expects it to be more like 450.

The deal is vital for this division of Vickers. It could quite conceivably collaborate with Krauss-Maffei if the West Germans won the order, since the two have already worked together on the (unsold) Mark 7 export tank.

But the UK would no longer be in the business of designing its own tanks.

The choice is politically charged, even though Challenger 2 is not quite as British a tank as Challenger 1: the new model includes a French sighting system and a Canadian fire-control computer.

It is also complicated by the difference between British rifle-bore tank guns and the competitors' smooth-bore. Vickers argues that a mix of the two would create a real headache in terms of support costs.

However, for the following generation of tank, expected to move from the 120mm gun to 140mm, senior officials believe international collaboration will be inevitable. The French Government is due to hive off its army weapons producer GIAT into a separate company in July, largely to enable it to form joint ventures.

Radar row mars EFA's take-off

Combat Aircraft

THIS year marks 25 years since the cancellation of the TSR2, the last go-it-alone British project of its kind, a supersonic, multi-role strike jet. That ended one era but opened another. From it came the Tornado, made jointly with West Germany and Italy, with assured sales to date totalling more than 1,000. And from the experience of the Tornado, with the addition of Spain, comes the European Fighter Aircraft. Or does it?

The £5.5bn development programme is due to have the first prototype flying by the end of 1991, so that the single-seat fighters can start to enter service in 1996. Current plans are for between 700 and 800 aircraft, at a cost of £22bn, plus, it is hoped, several hundred for export.

But a protracted row between the UK and West Germany on whose radar should be chosen has raised speculation as to the permanence of the partnership.

The development funds only just escaped the axe last year. West German parliamentary committees and Bonn officials warn that any cost overrun could force a withdrawal. The country's SPD opposition is no friend of the project, and elections loom at the end of next year.

Britain is counting on the fact that most of the development money will have already been spent by then to weigh in favour of the Germans pursuing the programme. Costs of developing combat aircraft are expected to continue to grow, especially in the light of constant improvements in the air defences they have to beat.

France, which pulled out of the EFA group in 1985, is committed to going ahead with its smaller Rafale, which is expected to cost some £12bn for 336 aircraft and could well be the last that the French undertake as a national venture.

In Britain, no new combat aircraft project other than EFA is expected to be in production for 15 years. The Tornado and the Harrier jump-jet are already "mature", although the latest Harrier II aircraft, made jointly by BAe and McDonnell Douglas, has significantly greater capabilities and – especially when a nose radar is added – greater export potential. But plans for an advanced supersonic successor are expected to slip well beyond the turn of the century, although Rolls-Royce, makers of the engines, is looking to an interim model.

The US, likely to become the only Western country to be able to sustain its own programme, currently has two new ones: the $67bn Advanced Tactical Fighter (ATF) for the USAF and the Advanced Tactical Aircraft (ATA) for the navy.

Both have been presented as joint-service requirements, with each service proposing to buy the other's new generation. The USAF would use a version of the ATA to replace some strike and attack aircraft, and the navy would buy the ATF, an air superiority fighter, to replace F-14 Tomcats.

But, with questions about the suitability of such a big, heavy and expensive aircraft for its carriers, the US Navy has been considering other options.

Field day for collaboration

HELICOPTERS are where collaboration has run riot. They are also the sector where most uncertainty prevails. The requirement for them at sea and, increasingly, in the battlefield is beyond doubt, but indecision abounds as to exact needs. This could, in Britain's case, mean that the government puts off committing itself – especially because of the political sensitivity surrounding Westland, the cause of a Cabinet crisis in 1986.

Westland is involved in two military projects with Agusta of Italy. One is the LAH light attack helicopter, in which Fokker of the Netherlands and Spain's Casa are also involved. The Ministry of Defence is due to decide soon whether to pull out and provide the army with an alternative.

Army officers would like Westland to build the more powerful McDonnell Douglas AH-64 Apache. The French would like Westland in their project with the West Germans, the PAH-2, which has just started full-scale development. The US, just to complicate matters further, would like European participation in the LHX light attack and reconnaissance helicopter, now in a "technology demonstration" phase involving rival industrial teams – a $40bn programme.

Westland's main hope for the future is pinned on the Anglo-Italian EH101 naval and utility helicopter, but the Government has been holding back on production orders for the Royal Navy and questions have been raised about the future requirement as a troop transport flown by the RAF.

Britain was to have been involved in another helicopter for this role, in partnership with the French, West Germans and Dutch, the NH-90,

Helicopters

but pulled out because it judged it too small.

This whole area of procurement has been under reconsideration, including the initial exclusion of a UK requirement for the Black Hawk, the Sikorsky-licensed helicopter which Westland is due to supply to Saudi Arabia. There is, however, a strong lobby for believing that helicopters play an increasing part in the future style of military operations. The proposed limits on combat helicopters in the Vienna conventional arms talks should enable countries like the UK to pursue their current projects.

Yards struggle to keep their heads above water

NAVAL shipyards, even those like Britain's which are not, these days, state-owned, are dependencies of their national governments. There is a built-in overcapacity in peacetime, which navies have an interest in maintaining. The degree to which European shipbuilders can compensate through exports varies.

The UK's share of warship exports has dropped sharply since the 1970s, a record only offset by the planned sales of minehunters to Saudi Arabia, offshore patrol vessels to Brunei and the possibility of building corvettes for Malaysia. The West Germans have been more successful in selling frigates and small submarines, and there has also been strong competition from France, Italy and Spain.

In some areas it is a monopoly relationship, for instance, nuclear-powered submarines. VSEL is the UK's sole producer and the UK government the sole buyer. In France the naval shipyards are part of the Defence Ministry's procurement branch and are considered "military establishments."

Shipyards have their hands tied when it comes to planning. Britain's four warship yards – GEC's Yarrow subsidiary, Swan Hunter, VSEL/Cammell Laird and Vosper Thornycroft – are invited to tender each year for slices of the government's frigate programme.

The Government has promised to stick to its target of maintaining a fleet of "about 50" frigates and destroyers, which means ordering two or three every year. In 1988 all the orders for the navy's new Type

Warships

23 went to Yarrow, giving it overwhelming domination of the programme to date. The next three orders, in December, switched to Swan Hunter, at a lower price.

If airframe producers have sought their salvation through international collaboration, in warships the process has hardly started.

Nato's first big joint warship project, the NFR90 frigate, powered with greater or lesser enthusiasm by eight nations, was sailing gently along when Mrs Margaret Thatcher, the Prime Minister, struck a hole in its side.

Work on a common design, which each country would have built in its own yards, had been going on for several years, and a two-year project definition phase had begun in January last year under a Hamburg-based joint venture.

The aim was a total of 59 ships, worth about £200m each. The main "risk" area of the project was the air-defence weapon system, with a choice between a US-led venture and French-Italian missile series, which, after some fairly heavy French leverage, is now backed by Britain.

The UK was the first to drop out of the frigate project, followed in succession by France, Italy, West Germany and Spain. The British have been discreetly trying to tempt Spain into a new European grouping. But as far as the hulls for its new air-defence ships are concerned, the most likely solution would now seem to be a stretched version of the Type 23 anti-submarine frigate. Whether there is any future for joint efforts in actual ship construction is now in some doubt.

A combination of factors is curbing demand for arms, reports **David White**

Outbreak of détente dents the market

THE world's annual military expenditure in dollar terms has edged up past the $1,000bn mark, according to the US State Department's Arms Control and Disarmament Agency.

But that figure – its most recent, referring to 1987 – does not mean the planet is becoming more militarised. If anything, the market for arms is shrinking, because of a combination of factors – détente between the Nato and Warsaw Pact countries that spend the most money, disarmament either under way or in prospect, the ending of some Third World conflicts, not least in the Gulf, budget constraints in industrialised countries, and the debt burden of developing countries.

Arms are a unique business. Most of the spending is done by industrial nations. Most of the trade is done with developing nations. As most industrial nations reverse or hold back the growth of their defence expenditure, their arms producers need to rely more and more on other clients. Their governments also need the export outlets to help defray costs and to keep their defence industries intact.

In the UK, success in the export market is the carrot the Ministry of Defence's tough competition-minded Procurement Executive offers in exchange for the stick of forcing down contractors' profit margins on domestic contracts. The surge in orders – swollen by Britain's oil-funded package deal with Saudi Arabia, extended in 1988 and now reckoned to be worth at least £15bn – is held up as the prize for succumbing to an efficiency regime.

However, competition is now intensifying for the big growth markets still left in a scene that, overall, is now stagnant.

According to the Stockholm International Peace Research Institute (Sipri), world trade in major conventional weapons has kept within a fairly narrow fluctuation band for the past five years, in constant 1985 terms between $32bn and $35bn. The exception was 1987, when the Iran-Iraq war was still in full swing and the total reached $39.5bn.

Iraq, which during the war was supplied mostly by the Soviet Union and France, ranks as the world's biggest importer of arms over the five years up to the end of 1988, ahead of India and Saudi Arabia. Add Egypt, Israel and Syria and you have almost two-thirds of all Third World arms imports in that period, according to Sipri's data.

However, developing countries' share of total arms trade, currently around 60 per cent, has been declining. This reflects trends both in their requirements and in the amount of trade being done between western countries. Several developing countries have been building up indigenous arms industries and becoming more self-sufficient, while financial constraints have curtailed some militarising ambitions.

Moves have begun, instigated by the UK, to promote greater trade movement in defence equipment between the European members of Nato. And foreign companies have increased their penetration of some areas of the US market, particularly in supplying parts. Transfers within Nato are expected to increase as a proportion of the whole. The biggest importers in Nato have been Turkey, Spain and Canada, but only Turkey ranks in the top 10 of Sipri's list of world clients.

Within the Third World, there has been a notable shift in growth away from the Middle East – although it remains the principal market – and towards South and East Asia. According to the Arms Control and Disarmament Agency, the Asian share of the world arms market has almost quadrupled in a decade from 6 per cent in 1977 to 23 per cent.

Arms purchases by Middle

Exports of major conventional weapons ($m at constant 1985 prices)

	1984	1985	1986	1987	1988	1984-88
USSR	10,118	12,945	12,905	15,053	12,768	63,789
US	10,228	8,506	9,973	12,225	9,367	50,298
France	3,853	4,046	4,122	3,073	2,881	17,975
UK	1,908	1,846	1,805	1,852	1,586	8,797
China	1,254	1,082	1,313	2,187	2,011	7,847
W.Germany	2,535	945	1,106	717	1,455	6,758
Czechoslovakia	704	497	497	570	405	2,673
Italy	869	590	404	379	397	2,638
Sweden	104	152	318	471	526	1,571
Brazil	301	188	140	482	356	1,468
Netherlands	88	88	240	265	756	1,447
Israel	263	220	242	460	186	1,370
Canada	107	132	472	387	67	1,165
Spain	475	139	172	139	211	1,136
Egypt	237	122	164	195	229	947
Others	1,060	986	773	1,063	768	4,650
TOTAL	34,112	32,284	34,647	39,518	33,969	174,529

Source: SIPRI

Importers of major conventional weapons ($m at constant 1985 prices)

	1984	1985	1986	1987	1988	1984-88
Iraq	3,940	2,958	2,179	4,632	2,339	16,048
India	1,016	1,876	2,946	5,048	3,378	14,263
Saudi Arabia	864	1,447	2,697	2,217	2,066	9,289
Japan	1,529	1,632	1,743	1,615	1,671	8,190
Egypt	2,322	1,295	1,682	2,335	354	7,987
Syria	1,604	1,690	1,508	1,172	1,133	7,107
Czechoslovakia	818	1,588	1,347	1,228	824	5,804
North Korea	654	1,123	1,038	787	2,169	5,772
Angola	697	694	974	1,135	890	4,391
Turkey	563	604	621	1,097	1,090	3,975
Spain	38	129	940	1,454	1,362	3,921
Poland	424	427	877	952	876	3,556
Pakistan	654	675	616	564	856	3,365
Canada	641	778	747	678	506	3,351
Iran	266	739	883	802	656	3,348
Others	18,084	14,629	13,849	13,802	13,799	74,162
WORLD TOTAL	34,112	32,284	34,647	39,518	33,969	174,529

Source: SIPRI

Eastern countries have meanwhile begun to decline overall, even if there is still a growth market for some kinds of weaponry. ACDA figures show military spending by 16 countries in the region tumbling from more than $90bn in 1984 to $67.5bn in 1987, with 11 of the countries showing declines.

Behind the Soviet Union and the US, by far the dominant suppliers, the UK and France continue to fight out their time-honoured battle for key clients.

Britain claims that it has ousted France from third place, on the basis of export orders (about £3.5bn in 1988). But in actual exports, Sipri's figures show the UK still trailing. The Ministry of Defence's statistics for actual exports of identified defence equipment show only £781m in 1988, below the previous year's £1.23bn and the lowest in the past six years.

In Canada, the UK and France were pitched in a bitter contest for the world's first ever export order for nuclear-powered submarines, but both lost when Canada changed its mind last April about the wisdom of the whole C$8bn project.

Britain's Saudi deal – built around the Anglo-German-Italian Tornado aircraft – was snatched from under France's nose. Another £1bn Tornado-based package agreement was signed by Mrs Margaret Thatcher, the Prime Minister, with Malaysia just over a year ago.

Most of the spending is done by industrial nations. Most of the trade is done with developing nations

Both countries have had upsets. In Jordan, a debt crisis scuppered a further £500m British Tornado deal last April, although France managed to keep a contract for Mirage 2000 fighters and weaponry.

The following month, Oman also shelved a Tornado purchase, although it opted for British Aerospace Hawk fighter/trainers instead. France meanwhile has lost markets in Switzerland and Kuwait, traditional clients for Dassault-Breguet, which both chose the McDonnell-Douglas F/A-18 fighter instead.

Britain is looking for further big deals in countries such as Indonesia, Thailand and Morocco. In the tank business it is still hoping for an opening in Saudi Arabia in spite of prospects for a $3bn Saudi deal with the US and a further purchase from Brazil.

Japan, one country that has been determinedly strengthening its defence commitments but has hitherto dealt almost exclusively with the US, has begun to open up. The Air Self-Defence Force's recent purchase of three BAe 125s to calibrate radar and navigation aids was its first import of a non-US aircraft.

The whole arms business has become complicated by the proliferation of economic offset agreements, which have helped to build up competing industries in client countries.

The second-stage UK-Saudi Al Yamamah agreement signed 18 months ago included an ambitious and wide-ranging offset programme. It foresees £1bn of British industrial investment in Saudi Arabia, to be matched by local partners. The figure is based on 25 per cent of the value of equipment supplies from the UK. These in turn are only part of the oil-funded deal, which includes an air base, training and support facilities as well as the aircraft, helicopters, minehunters and associated weapons.

Initial slowness in getting the offset programme going gave rise to a touchy period. Worries have been alleviated now that the first two offset projects have been approved, and there are more in the pipeline. But current plans are estimated to come up to no more than a quarter of the target, some of the more obvious opportunities having already been taken up under a previous Saudi offset deal with Boeing of the US.

In developed countries offsets have led to controversy and disillusionment. Examples are the work Spain was promised when it agreed to buy F/A-18s for its air force, and the expectations raised for job creation in the UK under the £860m deal with Boeing for AWACS early warning aircraft, even though the MoD expects the offset target – 130 per cent of contract value – to be exceeded.

The US is now clearly anxious to stop this kind of deal becoming the norm. In South Korea, where McDonnell Douglas has recently won a $3bn fighter contract against General Dynamics, the US authorities have sought for the first time to curb the size of offsets.